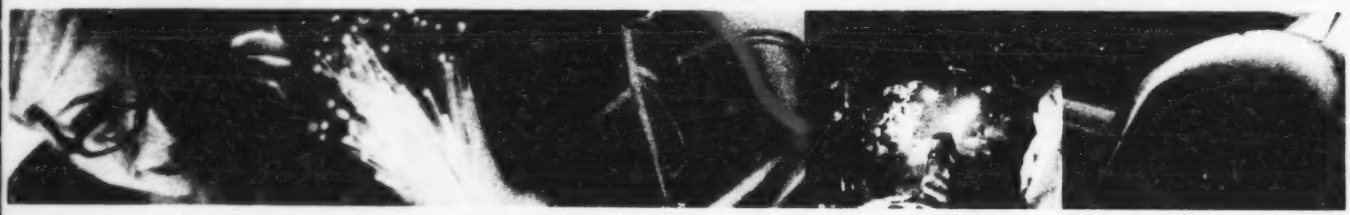
Québec



Taxation in Québec
2001-2002

PRICEWATERHOUSECOOPERS

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Note: *The tax information and tax calculations for 2001 take into account the changes proposed in the 2001-2002 Budget speeches on the assumption that such changes will be passed into law.*

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TAXATION

Québec administers and collects its own personal and corporate income taxes under the Québec Taxation Act. While the Canadian Income Tax Act and the Québec Taxation Act are separate laws, they are virtually identical with respect to the computation of taxable income for corporations and individuals.

Low tax rates on corporate profits and corporate investment tax incentives make the Québec tax system highly competitive compared with those of neighbouring Canadian and American jurisdictions. The Québec tax system clearly favours those companies that invest to increase production capacity and to upgrade technology.

Carrying on Business

A foreign investor can carry on business in Québec in the same manner as a Québec entrepreneur, i.e. as a sole proprietor, as a partner in a partnership or as a shareholder in a corporation.

Foreign investors who wish to carry on business in Québec normally establish a corporation that bears a limited liability. The corporation is a legal entity distinct from its owners, the shareholders; it can be incorporated under the Canada Business Corporations Act or the Québec Companies Act. Such legal entity is taxed on its income from all sources.

Non-resident Tax

In most cases, a foreign investor may also carry on business in Québec through a branch. A company that is incorporated in another jurisdiction is only required to comply with the provincial registration requirements.

However, the Canadian Government levies a 25% branch tax on profits earned in Canada by foreign branch. This rate may be reduced if a bilateral tax convention is in force between Canada and the country of residence of the investor. For example, the tax convention between Canada and the United States reduces this rate to 5%. Furthermore, this convention also exempts from this branch tax the first $500,000 of profits earned in Canada.[1]

The branch tax is normally calculated by multiplying the rate by the total of the federal taxable income less an investment allowance and all taxes payable in Canada. The branch tax is an additional tax over and above the taxes levied on corporations as described in the following section.

In addition, certain payments made to non-residents, whether individuals or legal entities, such as dividends, interest, royalties, management or administration fees, are subject to a federal withholding tax. The prescribed rate is 25% but it is usually less if a bilateral tax convention exists between Canada and the country of residence of the beneficiary; depending on the type of payment, the withholding tax rate can range from 0% to 15%. The Canadian Government is prepared, in its international tax treaty negotiations, to reduce the withholding tax rate on direct dividends paid to foreign companies to as low as 5% provided the measure is reciprocal. For example, the third protocol between Canada and the United States reduces the withholding tax rate on direct dividends to 5% if the beneficial owner is a corporation that owns at least 10% of the voting rights.

Whatever the form of investment used to carry on business in Québec, both the federal and Québec taxation systems allow credits for foreign taxes paid to avoid double taxation.

[1] Unless stated otherwise, all amounts in this document are in Canadian dollars.

Investment Canada Act

The objective of the Investment Canada Act is to encourage investment in Canada by Canadians and non-Canadians that contributes to economic growth and employment opportunities. Under this Act, foreign investors who establish new businesses or acquire existing enterprises must file a notification to this effect within the following 30 days.

The following table describes the situations that are reviewable.

	Direct Investment (1)						Indirect Investment (2)			
	Less than $5 million		More than $5 million and less than $209 million		$209 million and more		Less than $50 million		$50 million and more	
	Notice	Review	Notice	Review	Notice	Review	Notice	Review	Notice	Review
Investor - WTO (3)	yes	no	yes	no (4)	yes	yes	yes	no	yes	no
Investor – non-WTO Member	yes	no	yes	yes	yes	yes	yes	no	yes	yes

(1) A direct investment is any investment by which the control of a Canadian business is acquired, including the acquisition of the shares of a Canadian corporation, the acquisition of the Canadian business assets or the acquisition of voting interests of an entity that is carrying on a Canadian business or controls, directly or indirectly, another entity carrying on a Canadian business. It also includes the acquisition of the shares of a non-resident company, which owns subsidiaries in Canada if the value of the assets of the Canadian part represents more than 50% of the total value of company's assets.

(2) An indirect investment is the acquisition of the shares of a non-resident company, which owns subsidiaries in Canada if the value of the assets of the Canadian part represents less than 50% of the total value of the company's assets.

(3) The non-Canadian investor or the non-Canadian vendor is ultimately controlled by a resident of a country that is a member of the World Trade Organization (WTO).

(4) A review is required for any investment of more than $5 million in the following sectors: financial services, transportation, uranium and cultural businesses.

Competitiveness of Québec's Tax Structure

Corporations that have an establishment in Québec are subject to a single tax rate of 9.04% for 2001. However, numerous corporations may be tax exempt for a specified period of time. Corporations making major investments in Québec may, under certain conditions, enjoy a 10-year tax holiday. New corporations, those that operate in a CDTI, the Centre de développement des biotechnologies de Laval, carry out an innovative project in a CNE or those that carry on business in certain resource regions of Québec may qualify for a 5-year tax holiday.

The Québec tax regime also offers very compelling measures to businesses in several domains of activity such as research and development, the domain of the knowledge-based economy, the financial sector or the cultural sector. Other measures are available to businesses operating in certain designated regions of Québec.

The Québec taxation system also permits the attraction to Quebec of high-skill workers. Researchers, teachers and foreign specialists may, under certain conditions, enjoy a 5-year tax exemption. The Québec and federal tax regimes also offer incentives for stock option plans. Indeed, employees of a CCPC [2] will not be liable to tax until they dispose of such shares that they acquired under such a plan.

[2] See below at page 14 for the definition of Canadian Controlled Private Corporation.

THE TAXATION OF CORPORATIONS

Calculation of Taxable Income

The starting point for computing the taxable income of a corporation for federal and Québec purposes is generally the earnings reported in the financial statements of the corporation and determined according to generally accepted accounting principles in Canada. Certain items are then deducted or added to the earnings as required by the Canadian or Québec income tax acts. These adjustments are essentially the same at the federal and provincial levels. The main items to take into account when reconciling accounting and taxable income are discussed below.

Capital gain

Fifty percent of capital gains realized are included in income and subject to tax at the normal rates. Fifty percent of the capital losses realized may be deducted from taxable capital gains in the year. Net capital losses may be carried forward indefinitely or carried back three years but may only be deducted from net taxable capital gains [3].

Thin Capitalization

In general, interest expense is not deductible on debt owing to non-resident shareholders of a corporation to the extent that the interest-bearing debt exceeds two [4] times the capital outlay in the form of shares and retained earnings attributed to the non-residents.

Depreciation

The depreciation allowed for tax purposes is optional and is usually more generous than depreciation determined for accounting purposes.

Generally, depreciation for tax purposes can commence at the earlier of the time the depreciable property is available for use for the purpose of earning income, or 24 months after the property is acquired.

Moreover, depreciation in the year of acquisition is generally limited to one-half of the normal deduction (half-year rule).

Québec Measures for Accelerated Depreciation

A 100% depreciation deduction is available for the following new assets: assets used for the manufacturing and processing of goods, general-purpose electronic data processing equipment, system software, equipment for the processing of foreign ore as well as certain intangible assets. This deduction is also available to fiber-optic cables, coaxial cables as well as the opto-electronic and electronic equipment used in connection with them. Finally, the deduction is available for equipment connected to microwave station, if acquired before April 1, 2005 and used in areas outside urban zones.

Assets acquired before April 1, 2005 are eligible for a supplementary deduction of 25% of the accelerated depreciation claimed for such assets for a taxation year. This deduction will, if applicable, be increased in proportion to the business done outside Québec during such taxation year.

Taxpayers who carry on their business partly in Québec and partly outside Québec may claim an additional deduction equal to 20% of the accelerated depreciation deduction claimed for a taxation year. The resulting deduction amount is then multiplied by the ratio of business carried on outside Québec to that carried on in Québec.

[3] The same rates apply to the disposition of eligible capital property, as goodwill, for example.

[4] This rule will also be applicable to partnerships, trusts and branches.

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The table below shows the 2001 depreciation rates (i.e. Canadian federal, Québec and United States federal) for some commonly used assets.

TYPE OF ASSET	Federal system	Québec system	American system
	(% of declining balance)		(recovery/ period/years)
Buildings and other structures	4	4	39 [3]
Automobiles, trucks, tractors, lift trucks	30	30	3 or 5 [4] [11]
Passenger vehicles costing over $30,000 (before GST/QST)	30	30	5 [5]
Trailers and heavy trucks used for freight transport	40	40	5 [4]
Small tools and applications software [2]	100	100	3, 5 or 15 [4] [6] [12]
Computers and systems software [2]	30	125 [1]	3, 5 or 15 [4] [12]
Manufacturing tools and machinery	30	125 [1]	3, 5, 7, 10, 15, 20 [4] [7]
Patents (with limited or unlimited term)	25	125 [8]	15 [3]
Licences or permits (with limited term)	Straight-line [9]	125 [8]	15 [3]
Licences or permits (with unlimited term)	7 [10]	125 [8]	15 [3]

[1] These assets are deductible at 125% in the year of acquisition if they are new assets used in Québec and acquired before April 1, 2005 (100% thereafter). Otherwise, depreciation rules in Québec are the same as those used for federal purposes.

[2] Applications software refers to programs that instruct the computer to carry out specific applications related to managing and processing data. Systems software refers to the general operating system that enables application programs to be run and directs and coordinates the different operations of the computer. Computer software includes a licence to use computer software.

[3] Straight-line depreciation.

[4] The depreciation rates vary from year to year. Assets having a recovery period of 3, 5, 7 and 10 years are depreciated on a declining balance basis with a transition to the straight-line method.

[5] The depreciation rate is multiplied by the percentage used for business purposes. Depreciation deduction is subject to specific dollar amount limits.

[6] Small tools are included with manufacturing tools.

[7] Based on business sectors.

[8] These goods (including commercial secrets and know-how), if acquired before April 1, 2005 as part of a technology transfer are eligible for the 125% deduction (100% thereafter). Otherwise, depreciation rules in Québec are the same as those used for federal purposes.

[9] Depreciable over the life of the licence or permit. A licence to use computer software is excluded from this class, see note [2].

[10] The depreciable amount represents 75% of the cost. A licence to use computer software is excluded from this class, see note [2].

[11] Tractors may be depreciated over a three-year period.

[12] Applications and systems software may be depreciated over 15 years if acquired in a transaction involving the acquisition of assets constituting a trade or business. Otherwise, computer software is generally depreciated using the straight-line method over three years.

The table below shows the 2001 depreciation rates (i.e. Canadian federal, Quebec and United States federal) for some commonly used assets.

TYPE OF ASSET	Federal system	Québec system	American system
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Trailers and heavy trucks used for freight transport	40	40	5
Small tools and applications software [2]	100	100	3, 5 or 15
Computers and systems software [2]	30	125	3, 5 or 15
Manufacturing tools and machinery	30	125	3, 5, 7, 10, 15, 20
Patents (with limited or unlimited term)	25	125	15
Licences or permits (with limited term)	Straight-line	125	15
Licences or permits (with unlimited term)	7	125	15

(1) These assets are deductible at 125% in the year of acquisition if they are new assets used in Quebec and acquired before April 1, 2005 (100% thereafter). Otherwise, depreciation rules in Quebec are the same as those used for federal purposes.

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Income Tax

TAX RATES (for taxation years ending on December 31, 2001)	Québec	Ontario [1]	British Colombia	New Brunswick	Alberta
	%	%	%	%	%
Rates applicable to manufacturing corporations					
Federal tax [2]	22.12	22.12	22.12	22.12	22.12
Provincial tax	9.04 [3]	12.00	16.50 [6]	16.00	13.75 [8]
Total tax rate	**31.16**	**34.12**	**38.62**	**38.12**	**35.87**
Rates applicable on the first $200,000 of taxable income of a CCPC * [4]					
Federal tax [2]	13.12	13.12	13.12	13.12	13.12
Provincial tax	9.04 [3]	6.50 [5]	4.50	4.00	5.25 [9]
Total tax rate	**22.16**	**19.62**	**17.62**	**17.12**	**18.37**
Rates applicable for the revenue between $200,000 and $300,000 of taxable income of a CCPC * [4]					
Federal tax [2]	22.12	22.12	22.12	22.12	22.12
Provincial tax	9.04 [3]	19.00 [5]	16.50 [7]	4.00	5.25 [9]
Total tax rate	**31.16**	**41.12**	**38.62**	**26.12**	**27.37**
Rate applicable to non-manufacturing income from an active business					
Federal tax [2]	28.12	28.12	28.12	28.12	28.12
Provincial tax	9.04 [3]	14.00	16.50	16.00	13.99 [10]
Total tax rate	**37.16**	**42.12**	**44.62**	**44.12**	**42.11**
Income tax rate applicable to income other than income from an active business					
Federal tax [2]	35.79	35.79	35.79	35.79	35.79
Provincial tax	16.51 [3]	14.00	16.50	16.00	13.99
Total tax rate	**52.30**	**49.79**	**52.29**	**51.79**	**49.78**

* See page 14 for the definition of Canadian controlled private corporation (CCPC).

[1] Corporations that have either gross revenues exceeding $10 million, or total assets exceeding $5 million, on an associated basis, are subject to a 4% minimum tax.

[2] Corporations that are eligible to a preferential tax treatment, CCPC or manufacturing corporations are subject to a basic rate of 28%. For all other corporations, the basic rate is 27%. In all the cases, a 4% surtax is imposed on the basic corporate tax rate of 28% (after the provincial abatement of 10%). For CCPC, a 16% reduction applies to the first $200,000 of taxable income eligible to the small businesses deduction as well as a 7% reduction for the active business income from $200,000 to $300,000. A tax rate reduction of 7% is also available for manufacturing and processing income. A 6-2/3% refundable tax applies on investment income of private corporations, raising the rate at 35.79% for these kind of revenues.

[3] Corporations having a permanent establishment in Québec are subject to a tax rate of 8.9%. Until 2003, they are also required to pay a contribution to the Youth Fund representing 1.6% of their income tax payable. Under certain conditions, corporations may benefit of a tax holiday that reduce or eliminate the income tax. The effective tax rate may also be reduced if the corporation is eligible to a refundable income tax credit. An income tax rate of 16.51% applies to income other than income from an active business.

[4] These reduced rates only apply to the first $200,000 of taxable income of an active business in Canada (including income of associated Canadian corporations). Moreover, for purposes of the federal large corporations tax and provincial capital taxes, except in Ontario, these reduced rates apply only if the corporation's capital is less than $10,000,000 during the preceding fiscal year. Between $10,000,000 and $15,000,000, the $200,000 ceiling is reduced on a straight-line basis at a rate of $0.04 per dollar of capital.

[5] The income tax rate for the first $240,000 of CCPCs taxable income is 6.5%. For revenue between $240,000 and $300,000, the tax rate is raised to 19% for manufacturing and processing income and 15.67% for non-manufacturing income. A surtax applies, clawing back the provincial small business deduction when the taxable income of associated corporations falls between $240,000 and $600,000.

[6] A 3% non-refundable tax credit is available for purchases of equipment and buildings used for manufacturing and processing.

[7] CCPCs incorporated before April 30, 2001 may benefit from a two years tax holiday on the first $200,000 of active business income.

[8] Effective April 1, 2001, the manufacturing and processing income tax rate is reduced from 14.5% to 13.5%. A proportionate calculation has been made for the taxation year ending December 31, 2001.

[9] Effective April 1, 2001, the small business rate for the first $275,342 of active business income is reduced from 6% to 5%. A proportionate calculation has been made for the taxation year ending December 31, 2001. For the income between $275,342 and $300,000, the income tax rate is 13.75% for manufacturing and processing income and 13.99% for non-manufacturing income.

[10] Effective April 1, 2001, the rate is reduced from 15.5% to 13.5%. A proportionate calculation has been made for the taxation year ending December 31, 2001.

Note: In the United States, the federal corporate income tax rate is identical irrespective of the nature of the business (i.e. manufacturing or not). Differences may exist at the state or city level. For a comparison of the rates, see Table C of the Appendix.

Payroll Taxes and Other Employer Obligations

These payments are deductible in computing taxable income. The figures shown are applicable to 2001.

Statutory holidays	8 days
Annual vacation	2 weeks after 1 year 3 weeks after 5 years
Vacation pay	4% of annual earnings 6% after 5 years
Employment insurance	3.15% of salary (maximum insurable is $39,000)
Québec Pension Plan	4.3% of salary less $3,500 of basic exemption (the maximum eligible salary is $34,800)
Health Services Fund	4.26% of the total payroll [1]
Manpower training	1% of the total payroll less eligible training expenses [2]
Labour standards [3]	0.08% of the total payroll (maximum insurable is $51,500)
Occupational health and safety [4]	The average rate is 1.90% of salary (maximum insurable is $51,500)
Minimum wage	$7.00/hour (tip-workers: $6.25/hour)
Overtime	Hourly rate x 1.5, after 40hrs/week.

(1) For businesses with payrolls of $1 million or less, the rate is 2.7%. For businesses with payrolls of more than $1 million and less than $5 million, the rate varies between 2.7% and 4.26%. For businesses with payrolls exceeding $5 million, the rate is 4.26%.

(2) Businesses with payrolls under $250,000 are exempted.

(3) The contribution payable to the ministère du Revenu is used to finance the Commission des normes du travail whose purpose is to establish uniform labour standards across Québec.

(4) Employer contributions are used to compensate victims of industrial accidents and occupational diseases, to finance the activities of the Commission de la santé et sécurité du travail which manages the mandatory public insurance plan and to promote the health, safety and physical well-being of workers. The rate of assessment varies depending on the sector of activity.

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Rate applicable to non-manufacturing income from an active business					
Federal tax [2]	28.12	28.12	28.12	28.12	28.12
Provincial tax	9.04 [3]	14.00	16.50	16.00	13.99 [10]
Total tax rate	37.16	42.12	44.62	44.12	42.11
Income tax rate applicable to income other than income from an active business					
Federal tax [2]	35.79	35.79	35.79	35.79	35.79
Provincial tax	16.51 [3]	14.00	16.50	16.00	13.99
Total tax rate	52.30	49.79	52.29	51.79	49.78

* See page 14 for the definition of Canadian controlled private corporation (CCPC).

[1] Corporations that have either gross revenues exceeding $10 million, or total assets exceeding $5 million, on an associated basis, are subject to a 4% minimum tax.

Corporations that are eligible to a preferential tax treatment, CCPC or manufacturing corporations are subject to a basic rate of 28%. For all other corporations, the basic rate is 27%. In all the cases, a 4% surtax is imposed on the basic corporate tax rate of 28% (after the provincial abatement of 10%). For CCPC, a 16% reduction applies to the first $200,000 of taxable income eligible to the small businesses deduction as well as a 7% reduction for the active business income from $200,000 to $300,000. A tax rate reduction of 7% is also available for manufacturing and processing income. A 6-2/3% refundable tax applies on investment income of private corporations, raising the rate at 35.7% for these kind of revenues.

[2] Corporations having a permanent establishment in Québec are subject to a tax rate of 8.9%. Until 2003, they are also required to pay a contribution to the Youth Fund representing 1.6% of their income tax payable. Under certain conditions, corporations may benefit of a tax holiday that reduce or eliminate the income tax. The effective tax rate may also be reduced if the corporation is eligible to a refundable income tax credit. An income tax rate of 16.51% applies to income other than income from an active business.

[3] These reduced rates only apply to the first $200,000 of taxable income of an active business in Canada (including income of associated Canadian corporations). Moreover, for purposes of the federal large corporations tax and provincial capital taxes, except in Ontario, these reduced rates apply only if the corporation's capital is less than $10,000,000 during the preceding fiscal year. Between $10,000,000 and $15,000,000, the $200,000 ceiling is reduced on a straight-line basis at a rate of $0.04 per dollar of capital.

[4] The income tax rate for the first $240,000 of CCPCs taxable income is 6.5%. For revenue between $240,000 and $300,000, the tax rate is raised to 19% for manufacturing and processing income and 15.67% for non-manufacturing income. A surtax applies, clawing back the provincial small business deduction when the taxable income of associated corporations falls between $240,000 and $600,000.

[5] A 3% non-refundable tax credit is available for purchases of equipment and buildings used for manufacturing and processing.

[6] CCPCs incorporated before April 30, 2001 may benefit from a two years tax holiday on the first $200,000 of active business income.

[7] Effective April 1, 2001, the manufacturing and processing income tax rate is reduced from 14.5% to 13.5%. A proportionate calculation has been made for the taxation year ending December 31, 2001.

[8] Effective April 1, 2001, the small business rate for the first $275,342 of active business income is reduced from 6% to 5%. A proportionate calculation has been made for the taxation year ending December 31, 2001. For the income between $275,342 and $300,000, the income tax rate is 13.75% for manufacturing and processing income and 13.99% for non-manufacturing income.

[9] Effective April 1, 2001, the rate is reduced from 15.5% to 13.5%. A proportionate calculation has been made for the taxation year ending December 31, 2001.

Note: In the United States, the federal corporate income tax rate is identical irrespective of the nature of the business (i.e. manufacturing or not). Differences may exist at the state or city level. For a comparison of the rates, see Table C of the Appendix.

Payroll Taxes and Other Employer Obligations

These payments are deductible in computing taxable income. The figures shown are applicable to 2001.

Statutory holidays	8 days
Annual vacation	2 weeks after 1 year 3 weeks after 5 years
Vacation pay	4% of annual earnings 6% after 5 years
Employment insurance	3.15% of salary (maximum insurable is $39,000)
Québec Pension Plan	4.3% of salary less $3,500 of basic exemption (the maximum eligible salary is $34,800)
Health Services Fund	4.26% of the total payroll [1]
Manpower training	1% of the total payroll less eligible training expenses [2]
Labour standards [3]	0.08% of the total payroll (maximum insurable is $51,500)
Occupational health and safety [4]	The average rate is 1.90% of salary (maximum insurable is $51,500)
Minimum wage	$7.00/ hour (tip-workers: $6.25/ hour)
Overtime	Hourly rate x 1.5, after 40hrs/ week

(1) For businesses with payrolls of $1 million or less, the rate is 2.7%. For businesses with payrolls of more than $1 million and less than $5 million, the rate varies between 2.7% and 4.26%. For businesses with payrolls exceeding $5 million, the rate is 4.26%.

(2) Businesses with payrolls under $250,000 are exempted.

(3) The contribution payable to the ministere du Revenu is used to finance the Commission des normes du travail whose purpose is to establish uniform labour standards across Québec.

(4) Employer contributions are used to compensate victims of industrial accidents and occupational diseases, to finance the activities of the Commission de la sante et securite du travail which manages the mandatory public insurance plan and to promote the health, safety and physical well-being of workers. The rate of assessment varies depending on the sector of activity.

Tax on Capital

Québec imposes a tax on the capital of all corporations that have a permanent establishment in Québec during the year. For corporations other than banks, loan and trust companies, the rate of tax is 0.64% of the paid-up capital. The paid-up capital, after a reduction with respect to the value of investments made in other corporations, is usually equal to the net assets plus long-term loans and advances granted to the corporation.

This tax may be deducted in determining the federal and Québec taxable incomes of the corporation.

The Federal government imposes a large corporations tax, which is levied at a rate of 0.225% on taxable capital used in Canada by corporations. The taxable capital is calculated in a manner similar to the paid-up capital for Québec purposes. In general, it is only the capital in excess of $10,000,000 that is subject to this tax. In the case of corporations within the same related group (associated in the case of CCPCs), the capital deduction must be allocated among members of the group. The large corporations tax is reduced by the amount of the 4% surtax charged on federal income tax. The excess of the surtax over the large corporations tax for the current year may be applied to reduce the large corporations tax of the three preceding years and seven subsequent years.

Temporary deduction for new investments in Québec

In order to encourage new investments in Québec, a corporation will be allowed a deduction from its paid-up capital calculated for the purposes of the Québec tax on capital equal to the eligible acquisition costs incurred regarding an eligible asset. An eligible asset consists of manufacturing and processing equipment, equipment for the processing of foreign ore, computer hardware, equipment used in the tourism sector, as well as buildings used for these eligible activities. The eligible expenditure must be incurred before April 2005. This deduction is available in the taxation year during which the eligible acquisition costs are incurred and in the subsequent taxation year.

Commodity Taxes

The Goods and Services Tax

The GST is a form of value-added tax similar to that now levied, for example, in Europe, New Zealand and Australia. The tax is applied on a transactional basis and on a large range of products and services. The GST does not usually represent a cost of doing business. The GST is collected by a business from its clients, and the business is generally entitled to claim a refund or credit for any tax paid on the purchase of goods or services used in its commercial activities. The GST is computed at the rate of 7% of the selling price of taxable goods and services, or 15% in the case of the harmonized sales tax (HST) levied in three of the Atlantic Provinces. The credit for tax paid or payable, referred to as an "input tax credit", is available to each participant in the production and distribution chain, except for the final consumer who does not carry on a commercial activity, and a few businesses (for example financial institutions) which make so-called exempt supplies. Therefore, in general, the full burden of the tax must be borne either by the final consumer or by these businesses.

In a given period, a business must remit the total amount of tax collectible on its sales, less input tax credits it is entitled to claim. If the level of input tax credits exceeds the amount of GST collectible, the business is entitled to a refund.

In general, all goods and services which businesses sell, import or supply in Canada are subject to GST, unless they are specifically designated as either *zero-rated* or *exempt*.

In addition to the GST, federal excise taxes or duties are levied on specific goods such as jewellery, alcoholic beverages, tobacco products and petroleum products.

Imported goods are subject to customs duties according to a tariff classification applicable on the customs value at the moment of importation.

Certain imported goods may be accepted tax-free or benefit from preferential rates, for example, goods from a country with which a free trade agreement involving Canada is signed (United States, Mexico, Israel and Chile) or goods from developing countries.

In addition to customs duties, certain imported goods are subject to antidumping and compensatory duties.

Québec Sales Tax

The QST represents a value-added tax very much inspired by the GST, but applied for transactions made or deemed to be made in Québec.

The GST and QST principles of application are identical. Hence, businesses are generally entitled to recover the QST paid on their purchases, subject to certain restrictions in effect for large businesses. Specific rules apply for these restrictions for motor vehicles, fuel, electricity, gas, combustibles or steam, telephone or telecommunication services, meals and entertainment. Through the years, many exceptions substantially reduced the cost of these restrictions. For example, QST levied on heavy weight motor vehicles, heating oil, production equipment energy supply and Internet access services is now refundable. Thus, any entity which carries on business in Québec should first verify if it qualifies as a large business under the Act and if it is covered by the restrictions: generally, a business will qualify as a large business if its annual gross sales, including those of "associated persons", exceed $10 million.

As is the case under the GST system, the final consumer who does not carry on a commercial activity must bear the cost of QST, along with businesses making exempt supplies. To that effect, one has to remember that for QST purposes, financial activities are zero-rated instead of being exempt. As a result, the QST applicable on related costs and purchases can be recovered as a refund.

Therefore, businesses located in Québec benefit from a very favourable commodity tax system which basically eliminates the tax cost from their business inputs. Most U.S. states and the majority of other Canadian provinces do not have such a favourable system in place.

Moreover, an agreement was reached with the Federal government to significantly simplify the administration of sales taxes in Québec. Under that agreement, the Québec ministère du Revenu has control over the administration of both the federal GST and provincial QST on Québec territory, thereby allowing Québec businesses to deal with one level of government for their sales tax issues.

The QST rate is 7.5% and it applies on the selling price including GST. The combined rate of commodity taxes on a good or service, which is subject to both the GST and QST, is therefore 15.025%.

In addition to the QST, specific taxes or duties are payable to Québec on goods such as alcoholic beverages, tobacco products, tires, and petroleum products.

Municipal and School Taxes

Municipalities have the power to levy taxes on their residents and businesses. The principal form of municipal taxation is a tax levied on the assessed value of real property. A business tax is normally imposed on the leasing value of the place of business; in certain municipalities this tax can take the form of a mandatory permit or licence. The municipalities can also impose a surtax on non-residential real property. These taxes vary considerably from one municipality to another.

School boards may also levy a tax based on the assessed value of real property. The school tax is relatively small in Québec.

Municipalities are authorized to levy duties with respect to transfers of real property.

CORPORATIONS ELIGIBILITY TO TAX MEASURES

Canadian-controlled Private Corporation

Reduced tax rates apply to Canadian-controlled private corporations (CCPC). A corporation is generally deemed to be Canadian-controlled if at least 50% of its voting shares are owned by residents of Canada.

Associated corporations

A number of tax measures are calculated on a consolidated basis, considering all the associated corporations. The following corporations are not considered as associated corporations: Investissement Québec, Hydro-Québec, CapiTech Inc., Québec's universities, the Caisse de dépôt et placement du Québec, the Société générale de financement du Québec, Innovatech, the Fonds de solidarité des travailleurs du Québec, the Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi and the Development Bank of Canada.

Eligible corporations

Except otherwise indicated, an eligible corporation, for the Québec tax incentives purposes, is a corporation that carries on a business through an establishment located in Québec. In certain cases, to be an eligible corporation, all or substantially all of the income must be from an active business.

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Eligibility certificate or attestation

To benefit from the Quebec tax incentives, a corporation may be required to obtain an eligibility certificate or attestation from the following Entities or Ministers:

Research and Development	Ministère de la Recherche, de la Science et de la Technologie [1]
New Economy Tax Credit	Investissement Québec [2]
Tax Measures for Cultural Activities	Société de développement des entreprises culturelles (SODEC)
Tax Credits to Encourage Regional Development	Investissement Québec [3]
Tax Credit for Marine Construction	Ministère de l'Industrie et du Commerce
Tax Credit for On-The-Job Training Periods	Ministère de l'Emploi et de la Solidarité sociale
Other tax measures	Ministère des Finances [4]

(1) The Minister delivers eligibility certificates for pre-competitive research projects or environmental technology innovation projects as well as eligibility certificates for Foreign Researchers. For the Foreign University Professors credit, a certificate from the ministère de l'Éducation must be obtained. For expenditures incurred pursuant to a research contract with a prescribed research centre, an eligible research consortium or a prescribed linkage agency, corporations must obtain an advanced ruling from the ministère du Revenu.

(2) Except for the Cité du commerce électronique and the Cité de l'Optique, managed respectively by the ministère des Finances and the ministère de l'Industrie et du Commerce.

(3) Except for tax measures for the Montréal Foreign Trade Zone at Mirabel, managed by the ministère des Finances. Also, there is no requirement to obtain an eligibility certificate for the tax credit regarding exploration, renewable energy and energy conservation expenditures.

(4) There is no requirement to obtain an eligibility certificate for the tax holiday for new corporations, the tax holiday for small and medium-size manufacturing enterprises in a remote resource region, the tax credit for clothing and footwear industry and the tax credit for the maintenance of racehorses.

Eligibility certificate or attestation

To benefit from the Quebec tax incentives, a corporation may be required to obtain an eligibility certificate or attestation from the following Entities or Ministers:

Research and Development	Ministere de la Recherche, de la Science et de la Technologie [1]
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Tax Credits to Encourage Regional Development	Investissement Quebec [3]
Tax Credit for Marine Construction	Ministere de l'Industrie et du Commerce
Tax Credit for On-The-Job Training Periods	Ministere de l'Emploi et de la Solidarite sociale
Other tax measures	Ministere des Finances [4]

[1] The Minister delivers eligibility certificates for pre-competitive research projects or environmental technology innovation projects as well as eligibility certificates for Foreign Researchers. For the Foreign University Professors credit, a certificate from the ministere de l'Education must be obtained. For expenditures incurred pursuant to a research contract with a prescribed research centre, an eligible research consortium or a prescribed linkage agency, corporations must obtain an advanced ruling from the ministere du Revenu.

[2] Except for the Cite du commerce electronique and the Cite de l'Optique, managed respectively by the ministere des Finances and the ministere de l'Industrie et du Commerce.

[3] Except for tax measures for the Montreal Foreign Trade Zone at Mirabel, managed by the ministere des Finances. Also, there is no requirement to obtain an eligibility certificate for the tax credit regarding exploration, renewable energy and energy conservation expenditures.

[4] There is no requirement to obtain an eligibility certificate for the tax holiday for new corporations, the tax holiday for small and medium-size manufacturing enterprises in a remote resource region, the tax credit for clothing and footwear industry and the tax credit for the maintenance of racehorses.

TAX HOLIDAYS IN QUÉBEC

Tax Holiday for Major Investment Projects

In order to encourage major development projects in Québec, an eligible taxpayer who carries out a major investment project and who obtains a preliminary certificate as well as annual certificates of eligibility from the Minister of Finance may benefit, for a ten year-period, from a tax holiday, an exemption from the tax on capital and an exemption from the employer contributions to the HSF. In order to qualify, the application for a certificate must be made before the commencement of the project.

To be eligible, the taxpayer must be a corporation that carries on a business in Québec, directly or through a partnership.

Three types of projects can qualify as a major investment project:

- Projects involving an investment [5] of at least $300 million in capital expenditures and resulting in an increase in the payroll of at least $4 million.
- Projects involving an investment of at least $300 million in capital expenditures for the modernization or expansion of a production facility in Quebec.
- Projects resulting in an increase in the payroll of at least $15 million.

In addition, the project must respect these minimum payroll increase thresholds during the ten-year period and meet the established deadlines. A relaxation of these criteria may apply if particular conditions are met. The deadlines are 48 months from the date of the issuance of the initial eligibility certificate for the first type of project and no later than the year that includes the end of the 36th months following the date of the issuance of the initial eligibility certificate for the third type of project.

Such projects must be carried out in an eligible activity sector: primary sector, manufacturing sector, propulsive service sector [6] or finance and insurance sector excluding placement offices and accounting services.

Tax Holiday for New Corporations

New corporations, other than specified investment businesses and personal services businesses, whose paid-up capital does not exceed $15 million, enjoy a Québec exemption from income tax, tax on capital and the employer contribution to the Health Services Fund (HSF). The new corporation must qualify as a CCPC and must not be associated with any other corporations, whether Canadian or foreign. The exemption applies for the first five taxation years.

An eligible corporation may elect to benefit from the tax holiday for small and medium-sized businesses in remote resource regions.

[5] Acquisition of a business already carried on in Québec and the purchase of land are excluded investments.

[6] This sector includes telecommunications, electrical power, financial and business services, e.g., computer and computer-related services, advertising agencies, architectural and engineering firms and other scientific and technical services, management consulting and law firms and notary's offices.

The following table illustrates the maximum tax assistance granted for a new corporation as well as the limit applicable to each exemption.

	Ceiling	Applicable rate	Maximum tax assistance
	$	%	$
Income tax	200,000	9.04 (1)	18,080
Tax on capital	3,000,000	0.64	19,200
Employer contribution to the HSF	700,000	2.70 (2)	18,900

(1) This rate includes the 1.6% contribution to the Youth Fund.

(2) For the 2001 calendar year, the rate is 2.7% for businesses with payrolls of $1 million or less. For businesses with payrolls of more than $1 million and less than $5 million, the rate is between 2.7% and 4.26%. For businesses with payrolls exceeding $5 million, the rate is 4.26%.

Tax holiday for small and medium-size manufacturing enterprises in a remote resource regions

A 10-year exemption on taxes on income, capital and contribution to the HFS is granted to any eligible corporation, meaning one that carries out all its activities exclusively from an establishment located in a remote resource region [7] and whose activities consist mainly in manufacturing or processing.

The eligibility to the tax holiday is based on the amount of wages incurred by the corporation in the year with respect to its employees and that can be reasonably considered to relate to manufacturing and processing activities, in view of the time the employee spends on them or if this is not sufficient, the assets used for those activities may be considered. Moreover, the paid-up capital of the corporation may not exceed $10 million and is calculated on a world-consolidated basis taking into account any related corporations.

A partial tax holiday is allowed when the paid-up capital lies in between $10 and $15 million. This exemption is applicable until 2010. The tax bases covered by the tax holiday is not subject to a cap, and a subsidiary of an existing corporation may claim this holiday even if it was transferred a portion of its parent's activities. A corporation eligible to the present tax holiday that also qualifies for the tax holiday for new corporations may elect to be treated under the rules applicable to this tax holiday.

Other Tax Holidays

Other tax holidays are also made available to corporations carrying on their businesses in an ITDC, or undertaking an innovative project in a CNE or in the Centre de développement des biotechnologies de Laval. Tax holidays are also available for profits derived from international transactions of a business operating an international financial centre and for business qualifying for the support for the development of securities stock exchange and securities clearing-house corporations in Montréal or for the Montréal foreign trade zone at Mirabel. More information relative to these exemptions is given in the present document.

[7] These regions are the Bas-Saint-Laurent, the Saguenay-Lac-Saint-Jean, the Haut-Saint-Maurice RCM and the Mékinac RCM in Mauricie, the Abitibi-Témiscamingue, the Côte-Nord, the Nord-du-Québec and the Gaspésie-Îles-de-la-Madeleine.

The following table illustrates the maximum tax assistance granted for a new corporation as well as the limit applicable to each exemption.

	Ceiling	Applicable rate	Maximum tax assistance
	$	%	$
Income tax	200,000	9.04 [1]	18,080
Tax on capital	3,000,000	0.64	19,200
Employer contribution to the HSF	700,000	2.70 [2]	18,900

[1] This rate includes the 1.6% contribution to the Youth Fund.

[2] For the 2001 calendar year, the rate is 2.7% for businesses with payrolls of $1 million or less. For businesses with payrolls of more than $1 million and less than $5 million, the rate is between 2.7% and 4.26%. For businesses with payrolls exceeding $5 million, the rate is 4.26%.

Tax holiday for small and medium-size manufacturing enterprises in a remote resource regions

A 10-year exemption on taxes on income, capital and contribution to the HFS is granted to any eligible corporation, meaning one that carries out all its activities exclusively from an establishment located in a remote resource region [7] and whose activities consist mainly in manufacturing or processing.

The eligibility to the tax holiday is based on the amount of wages incurred by the corporation in the year with respect to its employees and that can be reasonably considered to relate to manufacturing and processing activities, in view of the time the employee spends on them or if this is not sufficient, the assets used for those activities may be considered. Moreover, the paid-up capital of the corporation may not exceed $10 million and is calculated on a world-consolidated basis taking into account any related corporations.

A partial tax holiday is allowed when the paid-up capital lies in between $10 and $15 million. This exemption is applicable until 2010. The tax bases covered by the tax holiday is not subject to a cap, and a subsidiary of an existing corporation may claim this holiday even if it was transferred a portion of its parent's activities. A corporation eligible to the present tax holiday that also qualifies for the tax holiday for new corporations may elect to be treated under the rules applicable to this tax holiday.

Other Tax Holidays

Other tax holidays are also made available to corporations carrying on their businesses in an ITDC, or undertaking an innovative project in a CNE or in the Centre de developpement des biotechnologies de Laval. Tax holidays are also available for profits derived from international transactions of a business operating an international financial centre and for business qualifying for the support for the development of securities stock exchange and securities clearing-house corporations in Montreal or for the Montreal foreign trade zone at Mirabel. More information relative to these exemptions is given in the present document.

[7] These regions are the Bas-Saint-Laurent, the Saguenay-Lac-Saint-Jean, the Haut-Saint-Maurice RCM and the Mekinac RCM in Mauricie, the Abitibi-Témiscamingue, the Côte-Nord, the Nord-du-Québec and the Gaspesie-Îles-de-la-Madeleine.

RESEARCH AND DEVELOPMENT AND OTHER MEASURES CONCERNING THE NEW ECONOMY

Research and Development

Summary of General Rules

Scientific research and experimental development (R&D) means a systematic investigation or search by means of experiment or analysis through pure or applied research, undertaken for the advancement of science and the creation of new processes, materials, products or devices, or to improve those in existence, even if only slightly.

A taxpayer that carries on a business in Canada may deduct from its taxable income its current or capital [8] expenditures for R&D carried on in Canada or for the provision of premises, facilities or equipment used for R&D in Canada. The expenditures may be deducted in the year in which they are incurred. The unused portion may be deducted in any subsequent year [9].Under certain conditions, the taxpayer may also deduct its current expenditures incurred in carrying on R&D outside Canada in the year in which they are incurred [10].

Are included in the current expenditures the remuneration directly attributable to the prosecution of R&D, cost of materials consumed in such prosecution and the rental cost of R&D material. Current expenditures also include certain payments to third parties [11] and a portion of general and administrative expenses directly related to the prosecution of R&D or to the provision of premises, facilities or equipment used for R&D. Are excluded, bonuses or remuneration based on profits as well as leasehold interests in a building or the expenditures to acquire rights in, or arising out of, R&D.

At the federal level, the allowable deduction must be reduced from any government or non-government assistance as well as contractual payments (including funds from not-for-profit entities that have received their funds from government or other public authorities). For Québec tax purposes, governmental assistance and the federal Investment Tax Credit (ITC) must also be deducted from eligible expenses, but not the Québec R&D tax credit.

Furthermore, in order to encourage foreign corporations not having an establishment in Canada to transfer R&D activities to their Québec subsidiaries, amounts received from outside Canada will not reduce the subsidiary's eligible expenses for purposes of the federal and Québec tax credits calculation.

Tax credits

CANADA

A taxpayer may claim an investment tax credit (ITC) equal to 20% of its eligible expenditures.

These expenditures include the current and the capital expenditures calculated for the R&D deduction [12]. If the taxpayer profits are not all or substantially all related to R&D, the prescribed expenditures are not eligible current

[8] New depreciable property that will be used in R&D for all or substantially all of its operating time in its expected useful life.

[9] At the federal level, the allowable deduction corresponds to the amount paid or deemed paid (within 180 days from the end of the taxation year).

[10] This expenditure is not an eligible expenditure for the purposes of the Federal investment tax credit.

[11] Including universities, colleges and institutes engaged in research.

[12] In the Gaspé Peninsula, the ITC also covers the acquisition of new buildings and machinery and equipment used primarily in manufacturing and processing, logging, mining and oil and gas activities at a rate of 10% of the eligible expenditure.

expenditures. For example, this would be the case for the remuneration of an employee whose functions are not all or substantially all attributable to R&D. Also, the taxpayer may choose to calculate its general and overhead expenditures under the proxy method. In this case, the expenditures will be equal to 65% of the salaries directly attributable to R&D, excluding bonus and taxable benefits. Capital expenditures made in respect of a building, including a leasehold interest therein, or rental expenses pursuant to a lease renewal for a building do not qualify for an ITC. Finally, the amount of expenditures must be reduced by any governmental or non-governmental assistance as well as contractual payments.

For a CCPC, the ITC rate increases to 35% of the annual R&D expenditures where the taxable income of the corporation and all of its associated corporations is less than $200,000 for the year immediately preceding the expenditure year. Moreover, this enhanced rate applies only to R&D expenditures up to an annual ceiling of $2,000,000 (maximum of $700,000 tax credit) for the corporation and its associated corporations.

The amount of the 35% ITC exceeding the income tax payable for the year is fully deductible for current expenditures and refundable at a 40% rate for capital expenditures.

The unused portion of ITC may be carried back to the three preceding taxation years and forward to the following ten taxation years.

The enhanced 35% rate gradually decreases to the standard 20% rate when the taxable income of the corporation and all of its associated corporations was between $200,000 and $400,000 for its previous taxation year or when the taxable capital of these corporations, as defined for the purposes of the large corporations tax [13], was between $10 and $15 million for their previous taxation year.

[13] See the definition of "taxable capital" under the section "Tax on Capital" at page 12.

QUÉBEC

Basic Refundable Tax Credit

The Québec government grants a tax credit in respect of certain R&D expenditures. This credit is fully refundable, both for CCPC and large businesses.

The taxpayer who carries on a business in Canada and undertakes or causes to be undertaken R&D in Québec on its behalf may claim a refundable tax credit equal to 20% of the salaries paid or deemed paid during the year (paid within 180 days following the year-end) to employees of a Québec establishment [14].

This credit is also available for all the amounts paid to a related person doing R&D in Québec on the corporation's behalf by virtue of a subcontract agreement.

If the subcontract agreement is concluded at arm's length, only 50% of the amount paid will be considered for the purposes of the tax credit.

The refundable tax credit for wages is also granted to businesses that carry out research on behalf of a third party who is not a resident of Canada and does not carry on a business in Canada.

The credit rate of 20% increases to 40% in the following situations:

- The first $2 million of annual wages paid in Québec by an CCPC whose total assets for the preceding taxation year, considering all the associated corporations, are less than $25 million. The 40% rate gradually decreases to the usual 20% rate when the total asset for the previous year was between $25 and $50 million.
- Eligible expenditures are incurred pursuant to a research contract with a prescribed research centre (eligible university entity or eligible public research centre), eligible research

[14] For the Québec tax credit purposes, salaries include salaries and fringe benefits, excepted the contributions of the employer.

consortium or prescribed linkage agency. An advanced ruling from the ministère du Revenu must also be obtained [15].

Tables A and B of the appendix show the net cost of an eligible R&D expenditure.

Additional Tax Credit Based on the Increase in Expenditures

A CCPC having total assets for its previous taxation year, considering all the associated corporations, worth less than $25 million and who is entitled to the refundable tax credit on R&D wages at the rate of 40% may temporarily claim a new refundable tax credit at the rate of 15%, in addition to the refundable tax credits it is otherwise entitled to. In general, this tax credit is based on the increase in all the R&D expenditures used as the basis for calculating refundable tax credits, compared with the average of all such expenditures made by the corporation during its three preceding taxation years [16].

An eligible corporation that, because of the application of the expenditure limit provided for the application of the tax credit on R&D wages, is entitled to this tax credit at the rate of 20% for the portion of its eligible expenditure in excess of this limit, will continue to be entitled to claim the tax credit based on the increase in its expenditures for the portion in excess of such expenditure limit.

Tax Holidays for Foreign Researchers

A tax holiday with respect to Québec personal income tax is granted, under certain conditions, to foreign researchers specializing in pure or applied sciences or in a related field for whom the ministère de la Recherche, de la Science et de la Technologie has delivered an eligibility certificate.

The tax holiday applies for a maximum period of five years of research carried out in a business conducting R&D activities in Québec. This tax holiday is also granted to foreign post-doctoral interns who conclude an employment contract with an eligible university entity or an eligible public research centre conducting R&D in Québec.

A foreign expert in management or financing of innovation activities, foreign commercialization or transfer of leading technology is also eligible for the same tax holiday in Québec.

Tax Holiday for Foreign University Professors Working in Québec Universities

A tax holiday with respect to Québec personal income tax is granted to foreign university professors working in Québec universities in the fields of sciences, engineering, finance, health or new information and communications technologies and for whom the ministère de l'Éducation has delivered eligibility certificate. The tax holiday applies for a maximum period of five years.

New Economy Tax Credits

Cité du multimédia

The Cité du multimédia is located near the Old Port of Montréal.

An eligible corporation that sets up an establishment in the Cité du multimedia and who obtains an eligibility certificate from Investissement Québec may claim a refundable tax credit equal to 40% of eligible wages (maximum $37,500 per year) incurred by the corporations and paid to eligible employees to carry out multimedia services or production activities or activities related to information technologies. The amount of tax assistance is limited to $15,000 per eligible employee, calculated on an annual basis. However, the maximum assistance of $15,000 must be reduced such that the total tax assistance does not exceed $25,000 including the sum of other Quebec tax credits, including the R&D tax credit on wages (or

[15] Generally speaking, eligible expenditures include 80% of the expenditures incurred with a non-related entity and all of the expenditures incurred with a related entity. Non deducted amounts paid to a research consortium may be deferred under certain conditions.

[16] A new corporation may also benefit from this tax credit, even for its first taxation year, were it has no reference period.

60% of eligible wages) per eligible employee on an annual basis. The tax credit will be available until 2010.

Foreign specialists working for a corporation carrying on a business in the Cité du multimédia performing duties consisting almost exclusively in carrying out training, research and development, specialized tasks pertaining to management in the fields of innovation, commercialization, technology transfer or innovation financing may apply for a five year income tax exemption on the wages they receive in respect of these eligible activities. The employer must obtain an eligibility attestation from Investissement Québec.

Centre national des nouvelles technologies de Québec (CNNTQ)

Similar assistance to that available to corporations operating in the Cité du multimédia will be granted to eligible corporations that obtain an eligibility certificate from Investissement Québec and move into designated premises of the CNNTQ to carry out activities related to production, multimedia services or to information technology and, in particular as applied to the arts and culture sectors. Accordingly, such eligible corporations are entitled to a refundable tax credit of 40% for wages paid to eligible employees. The amount of tax assistance is limited to $15,000 per eligible employee, calculated on an annual basis and the cap of $25,000 mentioned for the Cité du multimédia is also applicable for this tax credit. This credit will be available until 2010.

Foreign specialists working for a corporation carrying on a business in the CNNTQ and whose duties consisting almost exclusively in carrying out training, research and development, specialized tasks pertaining to management in the fields of innovation, commercialization, technology transfer or innovation financing may claim a five year tax exemption on the wages they receive with respect to eligible activities. The employer must obtain an eligibility attestation from Investissement Québec.

Information Technology Development Centres (ITDCs)

The ITDC concept is intended to encourage investment in Québec by corporations in the multimedia and information technology sectors.

An ITDC refers to a group of eligible corporations carrying out eligible activities in a given building. Buildings have been designated as ITDCs in Montreal, Québec City, Hull, Laval and Sherbrooke. To be eligible, the corporation must meet certain criteria, such as:

- Give a commitment to allocate a substantial portion of its activities to R&D of high value-added products or services.
- Develop new expertise and innovative projects.
- Generate significant economic spin-offs in Québec.

Corporations carrying on all or substantially all of their business within an ITDC (including subsidiaries of foreign corporations investing in Québec) and receiving an eligibility attestation from Investissement Québec are entitled to a five-year Québec tax holiday with respect to income tax, capital tax and employer contributions to the health service fund (HSF). The corporations may not claim any other tax credit for a period of three years [17].

[17] An exception to this rule is provided however for eligible corporations claiming a tax credit for the short-term rental of specialized installations in the Centre de développement des biotechnologies de Laval.

In addition, eligible corporations that have received the appropriate eligibility attestation may be entitled to the following refundable tax credits:

- 40% of wages paid to eligible employees or specialists (foreigners or not) until December 31, 2010, for carrying out their duties mainly in an ITDC provided that the corporation becomes an eligible corporation before December 31, 2005. The tax assistance is limited to a maximum of $15,000 per year, per eligible employee.
- 40% of the capital cost of the equipment acquired during one of the first three years of the tax holiday or 40% of rents paid for equipment during the tax holiday, provided that the lease begins before the end of the third year of the tax holiday. The purchased or rented equipment must be used in an ITDC and the credit is available for a period of three years.

Investissement Québec also offers a loan guarantee program to finance the tax credits that the corporation is entitled to claim for a taxation year.

Finally, foreign specialists working for a corporation carrying on a business in an ITDC who perform duties consisting almost exclusively in carrying out training, research and development, specialized tasks pertaining to management in the fields of innovation, commercialization, technology transfer or innovation financing may claim a personal income tax exemption for a five-year period on the wages they receive. The employer must obtain an eligibility attestation from Investissement Québec.

New Economy Centres (CNEs)

A CNE refers to a group of businesses carried on within available premises granted to each region of Québec, different than those mentioned above, thus extending to them the benefits of the fiscal measures concerning the knowledge-based economy in general. The ministère des Finances is responsible for designating buildings that can house CNEs after regional consultation.

Eligible corporations that have received an eligibility certificate from Investissement Québec that carry out eligible activities in a CNE may claim either the tax relief specifically applicable to CNEs (which is similar in nature to those mentioned for the Cite du multimedia and the CNNTQ), or that applicable to ITDCs if they carry out an innovative project there. Foreign specialists working for a corporation carrying on a business in a CNE benefit of the same tax measures than those working within the Cité du multimedia.

Centre de développement des biotechnologies de Laval

The Centre de développement des biotechnologies de Laval is located on the campus of the Institut national de la recherche scientifique (INRS) in Laval.

Corporations that establish themselves in the Centre de développement des biotechnologies located in Laval, who obtain an eligibility certificate from Investissement Québec and who carries on their activities in the biotechnology and human health sectors may benefit from the following tax measures:

- Those concerning ITDCs for businesses carrying out an innovative project.
- Those concerning CNEs in all other cases.
- For innovative projects, a refundable tax credit equal to 40% of the amount of eligible rental expenses relating to the short-term rental of eligible specialized installations, such as laboratories and incurred during the five year tax holiday period. These specialized installations include those located in the Centre de développement des biotechnologies located in Laval which are new and intended to be rented or a specialized installation of the INRS, located within the Cité de la biotechnologie et de la santé humaine du Montréal métropolitain. This tax credit is not cumulative with other tax credits.

Finally, foreign specialists employed by a corporation carrying on a business in the Centre de développement des biotechnologies de Laval may claim a five year personal tax exemption on the wages they receive when their duties consist almost exclusively in performing training, R&D, specialized tasks regarding management in the field of innovation, commercialization, technology transfer or innovation financing, other activities relating to the biotechnology sector or a combination of the above items. The employer must obtain an eligibility certificate from Investissement Québec.

Under certain conditions, transitional rules exist to allow corporations to benefit immediately from the tax measures for the period preceding their entry into the Centre de développement des biotechnologies de Laval, in the event that the premises are not available. Other transitional rules are also available for certain innovative projects already underway on the date of the introduction of the measures, March 29, 2001.

Cité de la biotechnologie et de la santé humaine du Montréal métropolitain

The Cité de la biotechnologie et de la santé humaine du Montréal métropolitain is located on the territory of the Parc scientifique et de haute technologie de Laval.

An eligible corporation that obtains an eligibility certificate from Investissement Québec and that carries on a certified business may claim a refundable tax credit equal to 40% of the payroll increase attributable to its eligible employees whose duties consist in manufacturing or commercializing products relating to the biotechnology and human health sector, or any other business whose activities are related to these fields.

For associated corporations, the credit is calculated on a consolidated basis. The credit is available until 2005 and is not cumulative with other credits.

Cité du commerce électronique

The Cité du commerce électronique will be located in downtown Montréal.

An eligible corporation that establishes itself in the Cité du commerce électronique [18] and obtains an annual eligibility certificate from the ministère des Finances may claim a refundable tax credit equal to 25% of eligible salaries paid to eligible employees for performing eligible activities. The credit is limited to $10,000 per employee on an annual basis. This tax credit will be available until 2010 but the rate of the credit may diminish from the sixth year onwards if an insufficient number of jobs are created.

Exceptionally, corporations located in the Cité du commerce électronique may also claim the refundable tax credit to encourage the use of e-commerce solutions.

Eligible activities (representing at least 75% of the corporation's activities) are divided into two sections:

- Activities pertaining to the development and supplying of products and services relating to e-business (for example, consulting services relating to electronic business solutions, processes and technology, development and integration of information systems and technology infrastructures);
- Activities relating to the operation of e-business solutions (for example, management, operations, maintenance and development of systems, applications and infrastructures, including technical assistance services to businesses and customers).

Foreign specialists working for a corporation carrying on a business in the Cité du commerce électronique and performing duties consisting almost exclusively in carrying out training, research and development, development and operation of technological systems or

[18] Under certain conditions, a corporation may benefit from the tax measures for the period preceding its entry into the Cité du commerce électronique if it carries on a business in Québec.

infrastructures, specialized tasks pertaining to management in the fields of innovation, commercialization, technology transfer or innovation financing may claim a five year personal income tax exemption on the wages they receive in respect of eligible activities. The exemption is available for specialists who start assuming their duties on or before 2010. The employer must first obtain an eligibility certificate from the ministère des Finances.

Tax Credit for the Cité de l'optique

Eligible corporations that are located in the Québec City region who obtain a certificate of eligibility from the ministère de l'Industrie et du Commerce (MIC) may claim a refundable tax credit equal to 40% of the increase in payroll attributable to employees working in production or commercialization activities connected to the manufacturing and commercializing of apparatus or equipment in the optics, photonics or laser sector. This tax credit will be available until 2003. Wages paid by associated corporations will be taken into account in the calculation of the amount eligible to the credit.

Refundable Tax Credit to Encourage the Adoption of E-Commerce Solutions

Eligible corporations [19] may claim a refundable tax credit equal to 40% of the eligible expenditures incurred in the course of implementing eligible e-commerce solutions. The tax credit applies to eligible expenditures incurred before April 1, 2002. It may not exceed $40,000 for the entire period in which the expenditures are incurred and is not cumulative with other tax credits.

Eligible e-commerce solutions include either the development of a transactional Web site using the public network (Internet), a limited-access secure and confidential public network (extranet), or of a business-to-business transaction system as part of a private network. However, such e-commerce solutions must include a transaction mode by secure computerized channel that allows for the purchase or sale of goods and services. The authentication of participants is not required.

Multimedia titles

Eligible corporations that have received a valid favourable advance ruling or the appropriate eligibility certificate from Investissement Québec and who carry on a multimedia title production business may claim the following tax measures:

Specialized Component:

Specialized corporations are corporations that focused exclusively or almost exclusively on the production of multimedia titles and, as the case may be, related R&D. The tax credit is calculated while considering all the multimedia titles produced.

Specialized corporations are eligible to a 50% refundable tax credit on their eligible labour expenditures incurred in the production of multimedia titles if at least 75% of the multimedia titles produced or of the gross income for a year consists of or is derived from multimedia titles designed for broad commercialization and are available in French. The credit rate is reduced to 40% for titles not available in French and to 35% if the titles are not designed for broad commercialisation.

This tax credit is not cumulative with other tax credits.

General component:

Specialized corporations or any other corporations may benefit from a tax credit calculated for each of the titles produced.

The refundable tax credit is equal to 50% of their eligible labour expenditures incurred in the production of multimedia titles designed for broad commercialisation and available in French. The credit rate is reduced to 40% for titles not

[19] Generally speaking, an SMB that is not an excluded SMB is an eligible corporation. To be an SMB, the total assets of the corporation must be less than $12 million and its total gross revenue must be less than $25 million, considering all the associated corporations. A corporation that pays less than 50% of its wages to employees of an establishment located in Québec is an excluded corporation.

available in French and to 35% if the titles are not designed for broad commercialisation. This tax credit is not cumulative with other tax credits.

Refundable Tax Credit for the Creation of an Eligible Digital Production

An eligible corporation that has obtained an annual eligibility certificate from Investissement Québec and that creates an eligible digital production in Québec may claim a refundable tax credit equal to 40% of eligible labour expenditures and 40% of the capital cost or expense of leasing eligible equipment. The tax credit is granted in relation to eligible expenditures incurred before January 1, 2003. It may not exceed $8 million for the entire period regarding which expenditures may be incurred, divided amongst the group of associated corporations, as the case may be, and is not cumulative with other credits.

Refundable Tax Credit for Technological Adaptation Services

An eligible corporation may claim a refundable tax credit equal to 40% of eligible expenditures incurred with respect to the collection and processing of strategic information or with respect to their joint undertaking in research and innovation. These expenditures must be incurred with an eligible business watch centre, an eligible liaison and transfer centre or an eligible college centre for technology transfer, as the case may be. The credit is not cumulative with other tax credits.

OTHER TAX BENEFITS FOR CORPORATIONS

Tax Measures concerning Culture

Québec film and television productions

A Québec film and television production corporation that has obtained an eligibility certificate and that has filed an application for final certification with SODEC within the twelve months following the recording date of a production's master tape or trial print may claim a refundable tax credit of 33 1/3% of the manpower expenditures incurred in the production of programs for children, documentaries, fictional works and some variety shows and television magazines.

French-language fiction feature films, other than animation, and single documentaries, intended essentially for release on French-language are entitled to the enhanced refundable tax credit of 45%. The qualified manpower expenditures eligible for this refundable tax credit may not exceed 45% of production costs and the tax credit is limited to a ceiling of $2.5 million per production. This ceiling does not apply for a production intended mainly for commercial release outside Canada and made by a production subsidiary (i.e. a corporation controlled either directly or indirectly, in any way whatsoever) of an eligible broadcaster. Such broadcasters must have as chief activity the operation of a television network other than a network of specialized television services, a pay-TV service, a pay-per-view service or a video-on-demand service.

To encourage the production of films and television programs that better reflect the realties of Québec's regions, and to help producers based outside the Montréal region, the tax credit is increased from 33 1/3% and 45% to 55.5% for eligible regional productions of eligible corporations.

These tax credits are not cumulative with other tax credits.

The federal tax system provides for a similar refundable tax credit representing 25% of the manpower expenditures with a ceiling of 12% of production costs; manpower expenditures must not exceed 48% of production costs

Other film and television productions

A corporation that has obtained an eligibility certificate from SODEC may claim a refundable tax credit for film or television production services that amounts to 11% of its Québec labour expenditures incurred as part of the shooting of a foreign production or a production that does not satisfy the Québec content criteria giving rise to the tax credit for film or television production.

A refundable tax credit equal to 11% of labour expenditures is also available at the federal level.

Special effects or computer animation

For labour expenditures relating to the creation of special effects or computer animation for use in an eligible film or television production, the rate of the tax credit for Québec film or television production is increased from 33 1/3% to 45% and the rate of the tax credit for production services from 11% to 31%.

Dubbing

An eligible corporation who renders dubbing services which has obtained a certification from SODEC and has filed an application for final certification within the twelve months following the recording date of the dubbed master tape of a production may claim a refundable tax credit equal to 33 1/3% of eligible expenditures related to certain services inherent to the dubbing process that are generally provided by self-employed workers or by corporations acting as sub-contractors. The tax credit is not cumulative with other tax credits.

At least 75% of the persons rendering services relating to the performance of actors and stage management must be persons that resided in Québec at the end of the calendar year preceding the one during which such services are provided.

Those services must be rendered in Québec and include the performance of actors, adaptation, detection, calligraphy/grid/typing and stage management. With respect to feature films for theatres, services inherent in the dubbing process also include the production of film titles and optical transfer.

Eligible expenditures consist of the total consideration paid by the corporation for such services, excluding GST and QST. However, for the production of film titles, the eligible expenditure corresponds to 30% of the amount paid by the corporation. For optical transfer services, the rate is 20%.

When an employee of the eligible corporation renders services, the eligible expenditure represents the wage paid to such employee in consideration for the service provided as part of the dubbing. However, eligible expenditures may not exceed 40.5% of the consideration paid for the execution of the dubbing contract.

An eligible production means a production that can entitle the corporation to the tax credit for Québec film and television productions, without taking into consideration the Québec content standards.

Tax Credit for the Production of Sound Recordings

An eligible corporation [20], which carries on a sound recording business, that has filed an application for final certification with SODEC within the twelve months following the date it has completed a master tape may claim a refundable tax credit equal to 33 1/3% of eligible labour expenditures.

To be granted an eligibility certificate, a sound recording must consist of at least 60% of musical content and must satisfy certain Québec content criteria. Eligible expenditures may not exceed 45% of the eligible production expenses of the sound recording and the credit may not exceed $50,000 per production, to be shared among the eligible co-producing corporations to reflect their shares in production expenditures. The tax credit is not cumulative with other tax credits.

Tax credit for musical productions

An eligible corporation which has obtained a certification from SODEC and that has filed an application for final certification within the twelve months following the date of the end of each of the following three periods:

- The period covering pre-production of the musical until the end of the first full year following its initial public performance.
- The period covering the second full year following its initial public performance.
- The period covering the third full year following its initial public performance.

May claim a refundable tax credit equal to 33 1/3% of eligible labour expenditures incurred to produce a musical production. The show must not be performed in private and must satisfy certain Québec content criteria. It must consist of at least 75% of songs or instrumental music, except for a concert, a song cycle or the interpretation of a dramatic work set to music, with or without spoken dialogues. The eligible expenditures may not exceed 45% of the eligible production costs of the musical production and the tax credit may not exceed $300,000 per production, to be shared among the eligible co-producing corporations to reflect their shares in production expenditures. The tax credit is not cumulative with other tax credits.

Refundable tax credit for book publishing

An eligible corporation [21], which carries on a Québec book publishing business who has

[20] An eligible corporation is a corporation controlled by Québec residents for at least 24 months.

[21] A corporation that is controlled by a Québec resident for at least 24 months is an eligible corporation.

obtained an eligibility certificate and that has filed an application for final certification with SODEC within the twelve months following the day of the end of the first printing of the work or the last printed work of a group of works may claim a refundable tax credit equal to 40% of its eligible labour expenditures regarding the eligible preparatory costs of the book (maximum 50% of these costs) and 30% of its eligible labour expenditures regarding the eligible printing costs of the book (maximum 33 1/3% of these costs). However, the maximum amount of the tax credit is $500,000 per book or per eligible group of books.

Measures to assist in the capitalization of business, financial activities and investments in Québec

International Financial Centres (IFC)

The purpose of IFCs is to enhance the development of international financial activities in Montréal.

In order for a business to be recognized as an IFC, it must obtain an eligibility certificate and the appropriate annual attestations from the ministère des Finances. A business does not include a business carried on by a partnership. Its activities must relate exclusively or almost exclusively to eligible international transactions, as determined by the International Financial Centres legislation. These activities thus relate to transactions involving persons who do not reside in Canada or projects that must be executed almost exclusively outside Canada:

- Trust services and trust services pertaining to qualified securities, i.e. securities relating to foreign entities or traded on foreign markets, provided for a person resident in Canada.
- Factoring services, to the extent that they involve receivables from a person not residing in Canada.
- Leasing credit services.
- Operation of a clearinghouse.
- Financing project services.
- Cash management activities.
- Activity of a securities dealer.
- Activity of a securities adviser, including securities portfolio management.
- Loans and deposits for non-residents.
- Foreign exchange operations.
- Letters of credit.
- Insurance brokerage.
- Documentary collection.
- Administrative, management and promotional activities involving eligible investment funds.
- Administrative support activities for another corporation operating an IFC or a financial corporation in relation to international financial transactions.

A business operating an IFC in Montréal may claim the following tax benefits:

- A tax exemption on profits derived from eligible international transactions. Financial transactions whose purpose is to grant loans to non-residents and accept their deposits are also eligible to a federal tax exemption.
- An exemption from the tax on capital in relation to the portion of the corporation's paid-up capital reasonably attributable to the operations of the IFC.
- An exemption from HSF contributions regarding wages paid to IFC employees.
- A refundable tax credit of 40% of eligible wages paid, before July 1, 2003, to an employee specialized in international transactions. The maximum amount of the tax credit is $30,000 per specialized employee.
- A refundable tax credit of 50% of the eligible solicitation expenditures incurred by the corporation operating an IFC during such taxation year and the two preceding taxation years [22]. The maximum amount of the tax credit is $75,000 per year.

[22] A new component has been introduced for expenditures incurred with a promoter of foreign investment funds relating to new eligible international financial transactions to be made before January 1, 2005. The 50% tax credit is limited to $150,000 per year per fund. Other limits are also applicable.

Other tax incentive measures were introduced to attract foreign specialists to Montréal and to promote the development and continuation of qualified employees in Québec. The employer must obtain an eligibility certificate and the appropriate annual attestations from the ministère des Finances:

- For specialists in international financial transactions who were not resident in Canada before being employed in an IFC, a total exemption from Québec personal income tax for a five-year period.
- For specialized employees and for strategic personnel [23] in an IFC residing in Québec, a partial exemption from Québec personal income tax equal to a third of their remuneration.

Further information is available on the Internet at the following address: www.cfimontreal.com.

Investment Funds

An eligible corporation which is granted an eligibility certificate by the ministère des Finances and manages an eligible fund whose administration, promotion and marketing are accomplished in a proportion of at least 75% in Québec can benefit, for a five-year period, from a tax exemption on the income earned from the administration and management of an eligible fund.

An eligible fund includes a mutual fund, an open-ended investment company or a segregated fund of a life insurance company.

The eligible corporation may also claim a refundable tax credit equal to 50% of the eligible start-up expenditures. The maximum amount of the tax credit is $250,000 per eligible fund. An overall ceiling of $1 million for all eligible investment funds is applicable.

[23] Carrying out administrative support activities.

Support for the development of securities stock exchange and securities clearing-house corporations in Montréal

Tax measures are provided to support the development of stock exchanges and clearing-house corporations in Montréal, maintain and develop the financial derivatives market as well as the expertise gained in this sector. These measures seek also to promote training of specialists in this field and the participation of stockbrokers in NASDAQ stock market whose activities began in Montréal in November 2000.

An eligible corporation that carries on a stock exchange business or a securities clearing-house corporation in Quebec, performing eligible activities in an establishment located within the territory of the City of Montréal and paying more than half of its salaries to employees of an establishment located in Québec may enjoy a Québec exemption from income tax [24], tax on capital and the employer contribution to the Health Services Fund (HSF). These exemptions will be available until 2010.

Foreign specialists, to whom the ministère des Finances has issued an eligibility certificate, working for a corporation carrying on a stock exchange business or securities clearing-house business carried on within the territory of the City of Montréal and performing their duties almost exclusively for the eligible corporation may claim a personal income tax exemption for a five-year period on the wages they receive with respect to eligible activities. This measure is available until 2011.

Refundable tax credit fostering the participation of investment dealers on the Nasdaq stock market

An eligible corporation that has obtained an eligibility certificate from the ministère des Finances, may claim a refundable tax credit equal to 50% of its eligible expenditures, incurred before January 1st 2002 and related to eligible activities

[24] The exemption is based on the same calculation procedures stipulated for the tax holiday regarding major investment projects.

carried on in its establishment located in Québec. The following components are eligible expenditures:

- Professional fees and expenses incurred by the corporation to obtain NASD member status.
- The cost relating to the acquisition or the rental of computer hardware, including software, and electronic communications equipment installed in the establishment located in Québec. The equipment must be new and maintained in the establishment for a minimum of 730 days.
- The costs relating to the hiring and training of personnel of the eligible corporation, employed at the establishment located in Québec either as an operator or market maker, or as a supervisor of the eligible activities carried out as a member of the NASD participating in the Nasdaq stock market.

The corporation must be registered with the Commission des valeurs mobilières du Québec (CMVQ) as an investment dealer, and must be a member corporation of the National Association of Securities Dealers (NASD) authorized to trade securities listed on the Nasdaq stock market, or in the process of becoming such a member.

The maximum cumulative amount of the tax credit is limited to $25,000 for the first component, $100,000 for the second one, and $50,000 for the third one, and is not cumulative with other tax credits. For associated corporations, the cumulative cap must be calculated on a consolidated basis.

Refundable tax credit for hiring junior financial analysts specializing in the securities of Québec corporations

An eligible corporation, registered at the CVMQ as a an unrestricted practice investment dealer or unrestricted practice securities adviser [25], and that has obtained an annual eligibility certificate from the ministère des Finances may claim one of the two following components of a refundable tax credit equal to 40% of the eligible salary paid to an admissible junior financial analyst who has received an eligibility certificate from the ministère des Finances.

First Component: Québec Corporations Analysis

The junior analyst must devote more than 75% of his work time to securities analysis activities in an establishment of his employer located in Québec and more than 50% of his securities analysis activities are financial analysis activities regarding Québec corporations.

A Québec corporation means a corporation that has a class of its capital stock listed on a recognized exchange or is in the process of being listed, of which more than half of the salaries paid to its employees during the preceding year were paid to employees of an establishment located in Québec and whose assets or market capitalization at the end of the preceding taxation year were worth less than $1 billion. For associated corporations, these amounts are determined on a consolidated basis.

The tax credit will apply for eligible salaries paid before July 1st 2003. It cannot exceed $30 000 per eligible junior financial analyst for a taxation year and is not cumulative with other tax credits.

Second Component: Financial Derivatives (FD) Analysis

The junior analyst must devote more than 75% of his work time to financial analysis, adviser or dealer activities specializing in FDs. The employee must carry out his duties either in the establishment located in Québec, or elsewhere but in relation with his employment at such establishment.

The tax credit will apply for eligible salaries paid before July 1st 2003. It cannot exceed $30,000 per eligible junior financial analyst for a taxation year and is not cumulative with other tax credits.

[25] A corporation that is an investment dealer or an investment adviser exempted with the CVMQ is an excluded corporation.

Tax assistance regarding communications between corporations and investors

An eligible corporation that has a class of its shares listed on a recognized stock exchange, or is in the process of being listed and has obtained a certificate from the ministère des Finances can claim a refundable tax credit equal to 40% of the amount of eligible communications expenditures it incurs in relation with an eligible road show staged for financial market professionals and investors.

This tax credit will apply regarding eligible expenditures incurred before July 1st 2003. It cannot exceed $40,000, calculated on an annual basis and is not cumulative with other tax credits.

An eligible corporation means a corporations who carries on a business in Québec, has an establishment there, of which more than half of the salaries it has paid to its employees during the preceding taxation year were paid to employees of its establishment in Québec and whose assets or market capitalization at the end of its preceding taxation year, were worth less than $1 billion. For associated corporations, these amounts are determined on a consolidated basis.

Measures to Assist in the Capitalization of Businesses

There are a number of incentives available for companies interested in doing business in Québec and looking for venture capital. For example, there is the Québec Stock Savings Plan (QSSP), the Cooperative Investment Plan (CIP), the Québec Business Investment Companies (QBIC) and the labour-sponsored funds.

The QSSP is restricted to corporations with assets of between $2 million and $350 million. The CIP is intended for the capitalization of cooperatives. QBICs invest in Canadian-controlled private corporations operating in eligible sectors of activity whose assets are less than $25 million [26] and where more than 50% of the salaries paid to the corporation's employees in the last 12 months preceding the date of a qualified investment and during the 12 months following such an investment are paid to employees of an establishment located in Québec. The maximum investment is $10 million per corporation.

Tax Credits to Encourage Regional Development

Montréal Foreign Trade Zone at Mirabel

General Measures

In order to improve Mirabel airport's development and strengthen Montréal's role as a hub for international trade, a foreign trade zone has been created at Mirabel [27] for businesses carrying on the following activities:

- International logistics.
- Aircraft maintenance and repair.
- Supplemental vocational training in aviation or in fields relating to the activities carried out in the foreign trade zone.
- Light manufacturing, provided that:
  - The value added through manufacturing does not exceed 50% of the total value of the manufactured products.
  - The manufacturing activities satisfy the airport installation development objective.
  - The proximity of an international airport, the ready access to the four major transportation modes (road, railroad, air, water), a duty-free zone and a large surface area location are key factors for the location of the business.

To be eligible, the businesses must obtain the appropriate certification from the ministère des Finances and carry out at least 90% of their activities in Mirabel relating to any of the four above-mentioned sectors of activity, keep separate accounting records and not simply move their activity already carried out elsewhere in Québec. Their payroll must also reach at least $400,000.

[26] Special rules apply when the total value of assets is between $25 million and $50 million.

[27] Under certain circumstances, a corporation may qualify as an eligible corporation if it is temporarily located outside the Mirabel Zone.

These tax measures, which apply until 2010, consist mainly of the following:

- Investment assistance in the form of:
  - A refundable 25% tax credit for equipment.
- Operating assistance:
  - Exemption from income tax, tax on capital and HSF contributions.
  - Refundable tax credit equal to 30% of wages of eligible employees (maximum $12,000 per employee annually), except for light manufacturing activities.
- Access to a duty-free zone:
  - A loan guarantee and interest holiday program to overcome certain shortcomings of the Canadian customs legislation on free zone in warehouse.
  - A refundable tax credit equal to 30% on fees paid to customs brokers (maximum $24,000 per year).
- Foreign specialists assistance: a total exemption from Québec personal income tax for a five-year period for eligible foreign specialists.

Refundable Tax Credit for the Construction of Strategic Buildings

An eligible corporation that was issued an eligibility certificate by the ministère des Finances may claim a refundable tax credit equal to 25% of the eligible construction expenses incurred in respect of a strategic building located on the territory of the International Trade Zone at Mirabel. In certain cases, the corporation will need to obtain a work completion certificate.

The eligible construction expenses include expenses relating to the preparation of tarmac, parking area and earthworks, but do not include expenses relating to any equipment included in the strategic building for which a tax credit is claimed for acquisition costs or rental expenses in connection with the general measures available for Montréal Foreign Trade Zone at Mirabel. The tax credit is not cumulative with other tax credits.

No eligibility certificate will be issued if a portion of the building is used for residential purposes or if more than 25% of the total space of the building is used for carrying on businesses other than eligible businesses for the purposes of the tax benefits relating to the International Trade Zone at Mirabel.

Refundable Tax Credit for the Vallée de l'aluminium

Eligible corporations located in the Saguenay-Lac-Saint-Jean region that are issued an eligibility certificate by Investissement Québec may claim, for five consecutive calendar years, a refundable tax credit equal to 40% of the payroll increase attributable to eligible employees working in production or commercialization activities. The activities must be connected to the manufacturing or processing of aluminum into high value-added finished or semi-finished goods that have undergone primary processing or in the field of manufacturing of specialized equipment for aluminum production or aluminum processing business. The activities may also involve the development and recycling of waste and residue resulting from the processing of aluminium. This tax credit will be available until 2004. Wages paid by associated corporations will be taken into account in the calculation of the eligible amount for the tax credit. Investissement Québec may offer, in certain cases, a loan guarantee to ensure interim financing of the tax credit.

Refundable Tax Credit for processing activities in resource regions

An eligible corporation, that carries on a certified business in an establishment of an eligible region [28], and to which Investissement Québec has issued an eligibility certificate, may claim, for five consecutive calendar years, a refundable tax credit equal to 40% of the payroll increase attributable to eligible employees.

For related corporations, the credit is calculated on a consolidated basis. Special rules may apply if the corporation has an establishment both in and out of an eligible region. The credit is available until 2004 and is not cumulative with other credits. The credit is not available to a

[28] The Bas-Saint-Laurent, Saguenay-Lac-Saint-Jean, Mauricie, Abitibi-Témiscamingue, Côte-Nord, Nord-du-Québec and Gaspésie-Îles-de-la-Madeleine are the eligible regions.

corporation that is the continuation of a certified business for which an eligibility certificate has previously been issued. Investissement Québec may offer, in certain cases, a loan guarantee to ensure interim financing of the tax credit.

An eligible corporation is a corporation whose activities are in relation with the wood, metal or food processing sector, the energy sector or other sectors such as the manufacturing and processing of finished or semi-finished products from peat, the development and recycling of waste and residue resulting from the development or processing of natural resources, fresh water aquaculture or the manufacturing of specialized equipment for fresh water aquaculture. Eligible activities also include commercialization activities incidental to these activities. Primary processing activities and service businesses are excluded.

Refundable Tax Credit for the Technopôle Angus

Eligible corporations that are located on the site of the former Angus Yards (Montréal) may claim a refundable tax credit equal to 40% of the increase in payroll attributable to employees working in production or commercialization activities. Eligible corporations must obtain a certificate of eligibility from Investissement Québec. This tax credit will be available until 2003.

The certificate will be issued if the activities carried out by the corporation are related to a manufacturing business, a business in the manufacturing sector whose chief activities consist in recycling, or a business in the environmental sector.

Refundable Tax Credit for Gaspé Peninsula and Certains Quebec's Maritime Regions

An eligible corporation to which Investissement Québec has issued an eligibility certificate, and that creates at least three full-time jobs may claim a refundable tax credit equal to 40% of the payroll increase attributable to its eligible employees working in the processing of sea products, the manufacturing and processing in the marine biotechnology field, the fields of wind power generation and mariculture, and the production of wind power, in the regions of Gaspésie, Îles-de-la-Madeleine, Côte-Nord and Matane RCM. The increase in payroll is determined on a consolidated basis and takes into account all associated corporations.

The tax credit is available for a five-year period starting from the one a certified business begins to be carried on in an eligible region, and no later than during calendar year 2004. Furthermore, in order for the corporation to qualify for the tax credit, its eligible employees do not comprise those with duties relating to general administration and at least 75% of the duties of the employees must be allocated to the certified business. Finally, the tax credit is not cumulative with other tax credits. Investissement Québec may offer, in certain cases, a loan guarantee to ensure interim financing of the tax credit.

Refundable Tax Credit regarding exploration expenditures or for renewable energy and energy conservation

An eligible corporation may claim a refundable tax credit equal to 20% of the eligible expenses. The tax rate is raised to 40% regarding expenses incurred by a corporation that does not operate any mineral resource or oil or gas well, and which is not related to such a corporation. These rates are raised to 25% and 45% respectively, regarding expenses incurred by a corporation in Québec's Near North or Far North. For expenses relating to renewable energy and energy conservation, a single rate of 40% applies. The tax credit is not cumulative with other tax credits.

Other Sectors

Refundable Tax Credit for Design

A qualified corporation holding a validation certificate issued by the ministère de l'Industrie et du Commerce (MIC) may claim a refundable tax credit equal to 20% of eligible salary expenditures and outside consulting contract costs. For SMBs, the credit rate can reach 40% [29].

[29] As a general rule, a corporation will qualify as an SMB if the value of its assets shown in its books and financial statements for the preceding taxation year is less than $50 million taking into account the assets of any corporation with which it is associated. The increased rate of 40% decreases on a linear basis for asset values ranging from $25 million to $50 million.

Eligible design expenses include industrial design and fashion design. The following expenses are eligible:

a) Applicable for all sectors – the cost of a contract with an outside consultant pertaining to eligible design activities. The outside consultant must be accredited in the field of design (i.e. registered with the MIC).

b) In the fashion and furnishings sectors – salaries paid by an eligible corporation to eligible designers (maximum $60,000 per designer per year).

The refundable tax credit is taxable at the federal level, but not at the provincial level.

Marine Construction

Taxpayers that carry on a marine construction business in Québec and that has obtained a validation certificate from the MIC may benefit from the following tax incentives:

- A refundable tax credit that can reach 50% of the eligible expenditures relating to the construction or conversion costs of an eligible ship. The eligible expenditures may not exceed 25% of the construction or conversion costs. The tax credit is not cumulative with other tax credits.
- A reduction of the Québec capital tax is granted regarding eligible ship acquisition costs and eligible conversion expenses.
- A financial guarantee program is available for purchasers of ships built in a Québec shipyard.
- For Québec sailors employed on a vessel engaged in international trade, there is a Québec tax holiday regarding the remuneration earned while working on the vessel.

Clothing and Footwear Industry

An eligible corporation who carries on a clothing and footwear production business may claim a refundable tax credit equal to 20% of the increase in payroll attributable to eligible production employees, determined on a consolidated basis of all associated corporations. The tax credit is available until December 31, 2001 and is not cumulative with other credits.

Refundable Tax Credit for the Maintenance of Racehorses

A taxpayer who is the owner of an eligible horse bred for racing may claim a refundable tax credit equal to 30% of the eligible expenditures incurred in Québec for the maintenance and training of an eligible horse. The tax credit is available for eligible expenditures incurred between June 30, 2000 and December 31, 2003. It may not exceed $3,600 per eligible horse, calculated on an annual basis and is not cumulative with other tax credits.

Québec Refundable Tax Credit for On-the-job Training Periods

An eligible corporation that obtains the appropriate certification from the ministère de l'Emploi et de la Solidarité sociale may claim a tax credit equivalent to 40% of its eligible training expenses made as part of an eligible training internship beginning before January 1, 2006. The credit is reduced to 20% for unincorporated employers. The maximum tax credit varies between $200 and $250 per week per trainee, depending on target customer.

The tax credit applies to students registered in a secondary, collegial or university undergraduate education program. A second component of the tax credit: "Stage Québec" applies to individuals enrolled as full-time students in a master or PhD university program.

On-the-job training must be of sufficient duration or alternating periods of training and work are provided.

Eligible training expenses for the tax credit include the salaries of trainees or apprentices and the salaries of employees who supervise such training.

PERSONAL TAXATION

Income Tax

The Canadian and Québec governments both levy a tax on the income of individuals resident in Québec. The amount of tax is determined on the basis of a progressive rate table. Residents are taxed on their income from all sources. They may claim certain deductions the principal categories of which are the following:

- Certain expenses incurred for the purpose of earning employment, rental, investment or business income.
- Investments in "tax shelters" such as registered pension plans, registered retirement savings plans, prescribed stock purchase plans.

Individuals are also allowed tax credits in lieu of personal exemptions, exemptions for dependents and for foreign taxes paid.

At the Québec level, a 1% contribution tax is levied on an individual's total income (excluding employment, alimony and old age pension incomes) as a contribution to the health services fund. Certain deductions are also permitted. For the year 2001, a general income exemption of $11,000 and a contribution limit of $1,000 have been set. Furthermore, the contribution is limited to $150 for taxable income between $26,000 and $40,000. This tax entitles the individual to a 20.75% tax credit for Québec income tax purposes.

Simplified Québec Tax System

Québec taxpayers may choose between the general tax system and the simplified tax system. In choosing the simplified tax system, taxpayers continue to benefit from the non-refundable personal tax credits designed to recognize basic needs, such as the basic personal credit, the spouse and dependent children tax credits, including the tax reduction for families and the amount for a person living alone, and the age credit. They can also claim the tax benefits related to retirement, such as deductions for contributions to an RRSP or a registered pension plan, and the tax credit for retirement income and for gifts and donations. All other tax credits and deductions, including especially tax credits related to contributions to Employment Insurance, the Québec Pension Plan and the Health Services Fund are replaced under the simplified tax system by a single deduction of $2,625 per taxpayer, transferable between spouses if they choose simplified reporting. This amount is converted into a non-refundable tax credit at a rate of 20.75%, corresponding to a tax reduction of $545 per taxpayer [30].

[30] The rate will be reduced to 20% for the year 2002.

The following table shows, for various levels of income, the 2001 individual income tax of a Québec resident with employment income only. In the first scenario, a single person living alone is considered. The second scenario deals with an individual who is married with two children, ages 6 and 11, and the spouse has no income. The computation has been made under the simplified tax system. The calculation takes into account the Québec refundable sales tax credit and the GST refundable credit. These computations do not reflect the family allowances paid by the Québec government, the federal child tax benefit payments nor the Québec medical insurance.

INDIVIDUAL INCOME TAX IN 2001 - QUÉBEC RESIDENTS
(in dollars)

	Single person				Married couple with one salary and two children ages 6 and 11			
Gross income	Provincial tax	Federal tax	Total	Average rate %	Provincial tax	Federal tax	Total	Average rate %
15,000	306	619	925	6.17	–	–	–	–
30,000	3,270	2,677	5,948	19.83	–	1,549	1,549	5.16
50,000	7,751	6,361	14,112	28.22	4,165	5,541	9,705	19.41
75,000	13,811	11,404	25,215	33.62	10,975	10,584	21,558	28.74
100,000	19,936	16,832	36,768	36.77	17,130	16,011	33,141	33.14
150,000	32,186	28,939	61,125	40.75	29,380	28,119	57,498	38.33

Note: In 2001, the top marginal tax rate for a resident of Québec is 48.72%.

The table below compares the combined top federal/provincial tax rates (as a percentage of taxable income) for different types of income earned in Québec and Ontario in 2001.

	Capital gains		Dividends from taxable Canadian corporations		Employment income	
	Québec	Ontario	Québec	Ontario	Québec	Ontario
2001	24.36%	23.20%	33.44%	31.33%	48.72%	46.41%

Note: The 2001 Ontario surtax, for taxation year 2001, of 20% is calculated on provincial tax exceeding $3,560 and 36% calculated on provincial tax exceeding $4,491.

Registered Retirement Savings Plan (RRSP)

A registered retirement savings plan is a personal pension plan that can be set up by an individual. The contributions to the plan, subject to certain limits, are deductible from taxable income for both federal and provincial purposes. Investment income from the funds invested accrues tax-free. Any withdrawal (excluding certain transfers) has to be included in the computation of taxable income.

It is possible to contribute to the RRSP an amount up to 18% of earned income of the preceding year. The taxpayer is restricted to a limit of $13,500 less the pension adjustment (the pension adjustment quantifies the value of amounts accrued by the individual as a member in other vehicles of retirement savings, such as a registered pension plan or a deferred profit sharing plan).

Stock Option Plans

Generally, a person who purchases shares of an CCPC under a stock option plan may defer all tax liability until the disposition of such shares.

Québec Stock Savings Plan (QSSP)

Residents of Québec may reduce their Québec taxable income by purchasing shares eligible to an QSSP [31]. They must be shares listed on a prescribed stock exchange in Canada and issued by corporations whose head office or of which a majority of employees are in Québec. Certain shares issued by reason of the conversion of debentures or preferred shares may constitute qualified shares for the purposes of the QSSP. The deduction to the investor ranges from 50% to 125% of the investment. The general ceiling for QSSP deductions amounts to 10% of the taxpayer's gross income. If the shares are held for a minimum period of two years, the ultimate disposition of the shares will only attract capital gains taxation and no other form of income tax.

Québec Business Investment Companies (QBIC)

A QBIC is a private investment company set up to invest in new shares issued by a CCPC. For investments made by a QBIC in corporations undertaking eligible activities, a basic tax deduction is available to the individual shareholder resident in Québec, representing from 125 to 175% of the share capital invested in the QBIC. The deduction is limited to 30% of the individual total income. The deduction reduces the Québec taxable income of the investor. Investissement Québec administers the QBIC program.

Capital Gains Exemption

Capital gains on shares of qualified small business corporations or on qualified farm property may, under certain conditions, generate a $500,000 exemption. The exemption is available on net capital gains (that is after deducting current year capital losses, net capital losses from post-1984 taxation years claimed in the current year, and business investment losses for the current year or deducted in post-1984 taxation years).

The cumulative net investment loss will also affect the exemption amount available for the year. The Québec taxation legislation is harmonized with the federal legislation with respect to this exemption, except that various deductions will not be included in calculating the cumulative net investment loss.

An unlimited capital gain exemption remains in force for gains on disposition of a principal residence.

[31] A deduction is also available with regards to the acquisition of certain qualified convertible securities. This deduction is equal to 50% of the investment. An additional deduction equal to 50% of the conversion value will be granted at the time of conversion.

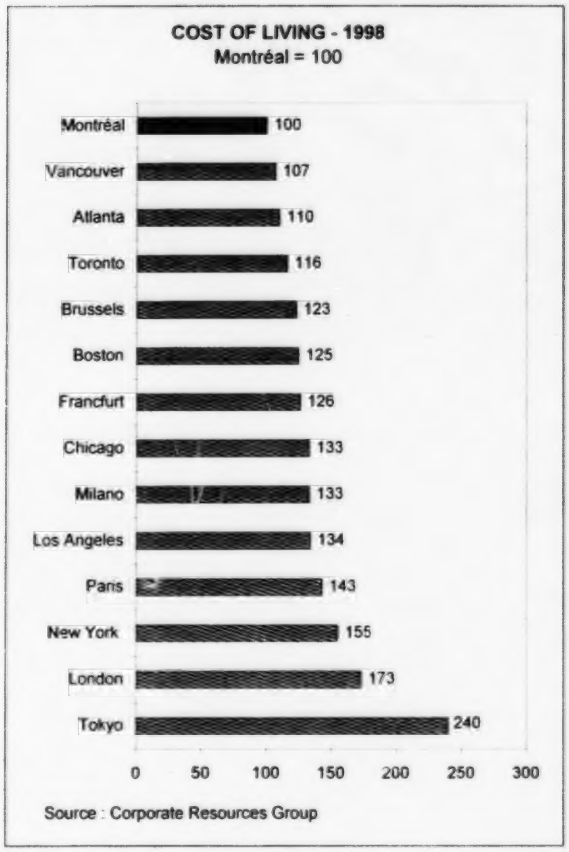
The Small Business Investment Rollover

In order to provide greater access to financing for small businesses with a strong growth potential, an individual investor will be allowed under certain circumstances to defer the taxation of a capital gain not exceeding $2 million resulting from the disposition of his investment in a small business, [32] as long as the proceeds are reinvested in whole or in part into another small business

Alternative Minimum Tax (AMT)

Individuals and trusts are subject to an AMT of 16% at the federal level (13.36% after taking into account federal surtax and provincial abatement) and 20.75% at the Québec level [33]. The AMT is based on regular taxable income adjusted for preferential items (certain tax shelter investments, capital gains and certain other deductions) after a deduction for the "gross up" on Canadian dividends and a basic exemption of $40,000 ($25,000 at the Québec level). Taxpayers are required to pay the greater of the regular tax and the AMT.

Should the AMT be payable in any year, the excess of the AMT over the regular tax liability may be carried forward for seven years and may be applied as a tax payment against regular income tax in the year or years that the regular income tax exceeds the AMT for that year.



Attractive Cost of Living

According to a comparative study conducted in 1998 by the Corporate Resources Group based in Geneva, Montréal ranks first among the most affordable cities in the world. The survey was based on over 150 consumer goods and services.

Residents of Québec benefit from free medical care. Public education is free of charge from primary school to junior college. University tuition fees are among the lowest in North America.

More information can be found in the "Living in Québec" section of Investissement Québec's web site at: http://www.invest-Québec.com.

[32] A small business corporation will qualify if the investor has held the shares for more than 24 months and the total assets of the small business corporation immediately after the investment was no more than $50 million.

[33] This rate will drop to 20% from taxation year 2002 and thereafter.

APPENDIX

R&D					TABLE A
Net Cost of a $100 Eligible R&D Expenditure [1] - *QUÉBEC* - 2001 The $100 expense is detailed as follows: Salaries $50 - Acquisition of equipment $10 - Overhead expenditures $40					
QUÉBEC		**SMB**		**LARGE BUSINESS**	
		In-house R&D	**External R&D [4]**	**In-house R&D**	**External R&D [4]**
		40% rate [3]	**40% rate**	**20% rate [6]**	**40% rate**
		$	**$**	**$**	**$**
1	**Expenditures**	100	100	100	100
	Less:				
2	**R&D tax credit /Québec**	(20)	(32) [5]	(10)	(32)
3	**Federal investment tax credit {(1-2) x 35% [2]} {20%}**	(28)	(23.80)	(18)	(13.60)
4	**Income tax saving due to deductions**				
	Federal {(1-2-3) [7] x 13.12%} {22.12%}	(6.82)	(5.80)	(15.93)	(12.03)
	Québec {(1-3) x 9.04%}	(6.51)	(6.89)	(7.41)	(7.81)
Net R&D after-tax cost (1-2-3-4) - Québec		38.67	31.51	48.66	34.56
Net R&D after-tax cost -Ontario (Table B)		44.66	33.03	50.30	37.84

(1) Assumes that the proxy method is not considered and the calculation is made for businesses conducting manufacturing activities.

(2) For purposes of the enhanced federal credit rate, the entity must meet the CCPC criteria. For more information concerning the tax rate applicable to CCPC, see notes (2) and (4) under the table on page 10.

(3) The 40% rate applies to CCPC which assets for the preceding taxation year, considering all associated corporations, are less than $25 million. In other cases, the rate decreases to 20%.

(4) Includes an eligible university entity, eligible public research center, eligible consortium or prescribed linkage agency.

(5) Assuming that the contract has been signed with a non-related entity, the credit is based on 80% of the eligible expenditure.

(6) The 20% rate applies when the corporation and its associated corporations show assets of at least $50 million on their financial statements for the preceding taxation year.

(7) The federal ITC is taxable at the federal and Québec level in the year following the year it is claimed. Note that the Québec R&D credit is taxable for federal tax purposes in the year it is earned. In this example, the credit has been included in income in the same year it is claimed.

R&D					TABLE B
Net Cost of a $100 Eligible R&D Expenditure [1] - *ONTARIO* - 2001 The $100 expense is detailed as follows: Salaries $50 - Acquisition of equipment $10 - Overhead expenditures $40					
ONTARIO		**SMB**		**LARGE BUSINESS**	
		In-house R&D	**External R&D [3]**	**In-house R&D**	**External R&D**
		10% rate [2]	**30% rate**	**0% rate [5]**	**20% rate**
		$	**$**	**$**	**$**
1	**Expenditures**	100	100	100	100
	Less:				
2	**R&D tax credit/Ontario**	(9.40)	(30)	–	(20)
3	**Federal investment tax credit {(1-2) x 35 %} {20 %}**	(31.71)	(24.50)	(20)	(16)
4	**Income tax saving due to deductions**				
	Federal {(1-2-3) x 13.12} {22.12%} [4]	(7.73)	(5.97)	(17.70)	(14.16)
	Ontario {(1) x 6.5%} {12%} [6]	(6.50)	(6.50)	(12.00)	(12.00)
Net after-tax cost (1-2-3-4)		44.66	33.03	50.30	37.84

(1) Assumes that the proxy method is not considered and that the calculation is made for businesses conducting manufacturing activities.

(2) The 10% Ontario innovation tax credit is available to private and public corporations. The rate of the credit decreases when the taxable capital reaches $25 million and is completely eliminated at $50 million. The credit is calculated on 100% of the current expenditure and 40% of the capital expenditure.

(3) For business-sponsored R&D undertaken in Ontario by provincially assisted universities, colleges or other research institutes, a 20% refundable tax credit is allowed (OBRI). This tax credit is effective for R&D expenditures incurred after May 6, 1997 in respect of contracts entered into after that date. To qualify for the OBRI tax credit, the corporation must obtain an advance ruling from the Ontario's Ministry of Finance regarding the research contract.

(4) Assumes that the corporation is a CCPC whose manufacturing and processing profits represent the whole of its income not subject to SBD and that the proxy method was not chosen for purposes of computing the federal R&D tax credit. The federal ITC is taxable at the federal level in the year following the year it is claimed. In this example, the credit has been included in income in the same year it is claimed.

(5) Assumes that the corporation has a taxable capital of at least $50 million.

(6) Under certain conditions, the federal ITC related to eligible Ontario R&D expenditures is not included in the taxable income for Ontario purposes.

M121

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TABLE C

COMPARISON OF INCOME TAX RATES

Large corporation with active business income – non-manufacturing activities

(for a taxation year ending on December 31, 2001)

	Québec	Ontario	Massa-chusetts	Michigan[1]	New York[2]	North Carolina	Illinois	Pennsyl-vania	Alabama	California	Georgia
	%	%	%	%	%	%	%	%	%	%	%
Basic tax rate											
Federal	28.12	28.12	35.00 [4]	35.00 [4]	35.00 [4]	35.00 [4]	35.00 [4]	35.00 [4]	35.00 [4]	35.00 [4]	35.00 [4]
Provincial/State	9.04	14.00	9.50 [5]	2.00	8.00 [7]	6.90	7.30	9.99 [9]	6.50	8.84	6.00
City (some states)	–	–	–	1.80 [6]	10.21 [8]	–	–	6.50 [10]	–	–	–
Effective tax rate											
Federal	28.12	28.12	31.68	33.67	28.63	32.59	32.45	29.23	32.73	31.91	32.90
Provincial/State [3]	9.04	14.00	9.50	2.00	8.00	6.90	7.30	9.99	6.50	8.84	6.00
City (some states) [3]	–	–	–	1.80	10.21	–	–	6.50	–	–	–
	37.16	**42.12**	**41.18**	**37.47**	**46.84**	**39.49**	**39.75**	**45.72**	**39.23**	**40.75**	**38.90**
Outside city of reference											
	–	–	–	**36.30**	**40.20**	–	–	**41.49**	–	–	–

(1) The State of Michigan is currently reducing its tax rate by 0.1% annually from its 1998 rate of 2.3%. This tax reduction will continue until the tax is completely phased out over 23 years.

(2) The State of New York has a reduced graduated rate for SMBs with an entire net income base not exceeding $290,000, which is calculated as follows:

Entire Net Income Base	State Tax Rate
Up to $200,000	7.5%
$200,001 to $250,000	$15,000 plus 8% of amount over $200,000
$250,001 to $290,000	$19,000 plus 10.5% of amount over $250,000

(3) State and city taxes are generally deductible from U.S. federal income tax.

(4) The general tax rate of 35% may vary depending on the income of the corporation.

(5) Tax rate of 8.33% plus a surtax of 14%.

(6) City of Detroit.

(7) Corporations, other than those stated in note (2), are liable to a tax on the greater of the following four amounts: 8.00% of total net income attributable to the state, 2.5% of minimum tax, 0.178% of capital investment or basic amount in respect to total payroll. The rate of 8% is reduced to 7.5% for the taxation years starting after June 30, 2001.

(8) New York City. On top of the basic tax rate of 8.85%, a surtax of 17% applicable to the State tax (8%) for the New York Metropolitan area was added.

(9) In addition, the state levies a 0.899% capital stock/foreign franchise tax.

(10) City of Philadelphia. In addition, the city levies a 0.2525% tax on gross receipts (revenues).

Unless otherwise indicated, the amounts stated do not take into consideration franchise or other capital based taxes.

TABLE C

COMPARISON OF INCOME TAX RATES

Large corporation with active business income – non-manufacturing activities

(for a taxation year ending on December 31, 2001)

	Québec	Ontario	Massa-chusetts	Michigan[1]	New York[2]	North Carolina	Illinois	Pennsyl-vania	Alabama	California	Georgia
	%	%	%	%	%	%	%	%	%	%	%
Basic tax rate											
Federal	28.12	28.12	35.00 [4]	35.00 [4]	35.00 [4]	35.00 [4]	35.00 [4]	35.00 [4]	35.00 [4]	35.00 [4]	35.00 [4]
Provincial/State	9.04	14.00	9.50 [5]	2.00	8.00 [7]	6.90	7.30	9.99 [9]	6.50	8.84	6.00
City (some states)	—	—	—	1.80 [6]	10.21 [8]	—	—	6.50 [10]	—	—	—
Effective tax rate											
Federal	28.12	28.12	31.68	33.67	28.63	32.59	32.45	29.23	32.73	31.91	32.90
Provincial/State [3]	9.04	14.00	9.50	2.00	8.00	6.90	7.30	9.99	6.50	8.84	6.00
City (some states) [3]	—	—	—	1.80	10.21	—	—	6.50	—	—	—
	37.16	**42.12**	**41.18**	**37.47**	**46.84**	**39.49**	**39.75**	**45.72**	**39.23**	**40.75**	**38.90**
Outside city of reference											
	—	—	—	**36.30**	**40.20**	—	—	**41.49**	—	—	—

1) The State of Michigan is currently reducing its tax rate by 0.1% annually from its 1998 rate of 2.3%. This tax reduction will continue until the tax is completely phased out over 23 years.

2) The State of New York has a reduced graduated rate for SMBs with an entire net income base not exceeding $290,000, which is calculated as follows:

Entire Net Income Base	State Tax Rate
Up to $200,000	7.5%
$200,001 to $250,000	$15,000 plus 8% of amount over $200,000
$250,001 to $290,000	$19,000 plus 10.5% of amount over $250,000

3) State and city taxes are generally deductible from U.S. federal income tax.

4) The general tax rate of 35% may vary depending on the income of the corporation.

5) Tax rate of 8.33% plus a surtax of 14%.

6) City of Detroit.

7) Corporations, other than those stated in note (2), are liable to a tax on the greater of the following four amounts: 8.00% of total net income attributable to the state, 2.5% of minimum tax, 0.178% of capital investment or basic amount in respect to total payroll. The rate of 8% is reduced to 7.5% for the taxation years starting after June 30, 2001.

8) New York City. On top of the basic tax rate of 8.85%, a surtax of 17% applicable to the State tax (8%) for the New York Metropolitan area was added.

9) In addition, the state levies a 0.899% capital stock/foreign franchise tax.

10) City of Philadelphia. In addition, the city levies a 0.2525% tax on gross receipts (revenues).

Unless otherwise indicated, the amounts stated do not take into consideration franchise or other capital based taxes.

GLOSSARY

AMT
Alternative Minimum Tax

CCPC
Canadian-controlled private corporation

CNE
Carrefours de la nouvelle économie

CNNTQ
Centre national des nouvelles technologies de Québec

CRTC
Canadian Radio-television and Telecommunications Commission

GST
Goods and services tax

HSF
Health services fund

ITC
Investment tax credit

ITDC
Information Technology Development Centres

MIC
Ministère de l'Industrie et du Commerce

QBIC
Québec Business Investment Company

QSSP
Québec Stock Savings Plan

QST
Québec sales tax

R&D
Research and development

RRSP
Registered Retirement Savings Plan

SBD
Small business deduction

SMB
Small and medium-sized businesses

SODEC
Société de développement des entreprises culturelles